Eversholt Rail Limited
(formerly trading as Eversholt Rail (UK) Limited)

Annual report and financial statements
for the year ended 31 December 2017

Registered No: 06953114

Annual report and financial statements
for the year ended 31 December 2017

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Strategic report
for the year ended 31 December 2017

Business Review

During the year and up to the date of signing the financial statements, Eversholt Rail Limited (the "Company"), provided asset management and administrative services on an arm's length basis to the Eversholt UK Rails Group ("Group") more fully described in note 28, which the Company forms part of. These included the procurement and management of heavy maintenance on rolling stock, asset management services, negotiating terms, arranging the execution of all lease documents and acting as Security Group Agent with respect to the Group's debt finance facilities.

In the year the Company generated a profit of £5,266,000 (2016: £26,343,000). As at 31 December 2017 the Company had net assets of £125,062,000 (2016: £137,634,000). The average number of persons employed by the Company during the year was 110 (2016: 101).

During the year the Group underwent a reorganisation which included the transfer on 31 May 2017 of the ownership of the Company from Eversholt Rail Holdings (UK) Limited to Eversholt Rail Leasing Limited (formerly trading as European Rail Finance (GB) Limited). The sole purpose of the reorganisation was to simplify the corporate structure of the Group.

Risk management

Underpinning all of the Group's activities is the primary requirement to effectively manage safety risks. The Company employs competent engineers to manage safety risks in accordance with guidance provided by specialists who monitor safety performance and legislative requirements.

The principal commercial risk for the Company arises in respect of its long term maintenance contracts. This risk is managed by close monitoring of maintenance expenditure incurred against forecasts which are informed by maintaining an excellent knowledge of the condition of the Group's fleets of rolling stock.

The Company has established risk management objectives and policies. These objectives together with an analysis of the exposure to such risks, are set out in note 26 of the financial statements.

Performance

The Company's results for the year are as detailed in the Income statement on page 8.

The Group manages its operations on a consolidated basis, therefore the Company's directors believe that further specific performance measures for the Company are not necessary or appropriate for an understanding of its performance. Performance measures for the Group are disclosed in the accounts of Eversholt UK Rails Limited.

Signed on behalf of the Board by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

29 March 2018

Directors' report
for the year ended 31 December 2017

The Directors present their Annual report together with the audited financial statements for the year ended 31 December 2017.

Directors

The Directors who served during the year and up to the date of signing were as follows:

M B Kenny
A J Course
A J Wesson

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company.

Future developments

No significant developments are currently anticipated, but the Directors keep opportunities under regular review.

Dividends

Dividends of £20,000,000 were paid in the year (2016: £nil). Dividend payments are reflected in the financial statements in the year in which they are declared.

Going concern basis

The financial statements are prepared on a going concern basis because the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

Disclosure of information to the auditor

Each person who is a director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board and signed on its behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

29 March 2018

Statement of Directors' responsibilities
for the year ended 31 December 2017

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit of the Company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Company's annual financial statements were approved by the Board of Directors on 29 March 2018 and signed on their behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

Independent Auditor's Report to the Members of Eversholt Rail Limited
for the year ended 31 December 2017

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Eversholt Rail Limited (the 'Company') which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of cash flows;
- the Statement of changes in equity; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's report to the Members of Eversholt Rail Limited (continued)

for the year ended 31 December 2017

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Independent Auditor's report to the Members of Eversholt Rail Limited (continued)
for the year ended 31 December 2017

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Makhan Chahal ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
2 New Street Square, London, EC4A 3BZ
United Kingdom

29th March 2018

Income statement
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue			
Maintenance income	*4*	**70,264**	68,409
Service charge income	*4*	**18,890**	18,334
Other income	*4*	**1,728**	2,659
Total revenue		**90,882**	89,402
Cost of sales	*5*	**(49,071)**	(54,141)
Gross profit		**41,811**	35,261
Finance income	*6*	**109,886**	103,798
Finance expense	*7*	**(107,276)**	(86,752)
Net fair value gain on derivative financial instruments		**-**	60
Pension finance expense	*25.6*	**(147)**	(97)
Administrative expense	*8*	**(21,503)**	(19,662)
Profit before tax		**22,771**	32,608
Income tax charge	*11*	**(17,505)**	(6,265)
Profit for the year		**5,266**	26,343

There were no discontinued or discontinuing operations during the year.

The notes on pages 12 to 34 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Profit for the year		**5,266**	26,343
Other comprehensive income/(expense)			
Actuarial gain/(loss) on defined benefit scheme	*25.7*	**2,452**	(2,988)
Tax in respect of actuarial gain/(loss) on defined benefit scheme	*21*	**(417)**	510
Effective portion of changes in fair value of cash flow hedges	*23*	**153**	(153)
Tax (charge)/credit on changes in effective portion of changes in fair value of cash flow hedges	*21*	**(26)**	26
		2,162	(2,605)
Total comprehensive income for the year		**7,428**	23,738

Effective portion of changes in fair value cash flow hedges may be reclassified to the Income statement upon termination of cash flow hedges.

Statement of financial position
as at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	*13*	**782**	855
Deferred tax	*21*	**1,377**	1,686
Amounts owed by group undertakings	*16*	**2,299,570**	2,153,172
		2,301,729	2,155,713
Current assets			
Inventory	*14*	**942**	1,149
Trade and other receivables	*15*	**31,516**	30,089
Amounts owed by group undertakings	*16*	**54,588**	52,243
Cash and cash deposits	*17*	**336,368**	23,117
		423,414	106,598
Total assets		**2,725,143**	2,262,311
Liabilities and equity			
Current liabilities			
Trade and other payables	*18*	**26,034**	16,498
Current tax		**11,838**	3,443
Borrowings	*19*	**21,151**	64,999
Provisions	*20*	**35**	35
Derivative financial instruments	*23*	**-**	153
		59,058	85,128
Non-current liabilities			
Retirement benefit obligation	*25.5*	**3,874**	5,968
Borrowings	*19*	**2,512,759**	2,021,625
Deferred revenue	*22*	**24,390**	11,956
		2,541,023	2,039,549
Total liabilities		**2,600,081**	2,124,677
Equity			
Share capital	*24*	**100,000**	100,000
Hedging reserve		**-**	(127)
Retained earnings		**25,062**	37,761
Total equity		**125,062**	137,634
Total equity and liabilities		**2,725,143**	2,262,311

The notes on pages 12 to 34 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29 March 2018. They were signed on its behalf by:

A J Wesson
Director

Company registration number: 06953114

Statement of cash flows
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flow from operating activities			
Profit before tax		**22,771**	32,608
Adjustments for:			
- Depreciation	*8*	**315**	261
- Write down of inventory	*8*	**206**	206
- Profit on fair value of derivative		**-**	(60)
- Finance income	*6*	**(109,886)**	(103,798)
- Finance expense	*7*	**107,276**	86,752
- Adjustment for non-cash element of pension charge		**359**	217
Operating cash flow before working capital		**21,041**	16,186
Increase in trade and other receivables		**(1,427)**	(3,284)
Increase in trade and other payables		**9,536**	481
Increase in deferred revenue		**12,434**	5,193
Decrease in provision		**-**	(1,119)
Cash flow generated by operating activities		**41,584**	17,457
Taxation paid		**(9,244)**	(7,178)
Net cash generated by operating activities		**32,340**	10,279
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(242)**	(227)
Investment in short-term bank deposits		**(250,000)**	-
Net cash utilised in investing activities		**(250,242)**	(227)
Cash flow from financing activities			
Movement in working capital loan accounts		**(209,852)**	1,365,568
Movement in loan from Eversholt Funding plc		**450,000**	130,000
Movement in term lending to Eversholt Rail Leasing Limited		**52,243**	(1,545,661)
Dividends paid		**(20,000)**	-
Intercompany accrued interest		**6,152**	773
Finance income received		**109,886**	103,798
Finance expense paid		**(107,276)**	(86,752)
Net cash generated by/(utilised in) financing activities		**281,153**	(32,274)
Net movement in cash and cash equivalents		**63,251**	(22,222)
Cash and cash equivalents at beginning of the year		**23,117**	45,339
Cash and cash equivalents at end of the year	*17*	**86,368**	23,117

Statement of changes in equity
for the year ended 31 December 2017

	Note	Share capital £'000	Hedging Reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	*24*	**100,000**	**-**	**13,896**	**113,896**
Profit for the year		-	-	26,343	26,343
Actuarial loss on defined benefit scheme	*25.7*	-	-	(2,988)	(2,988)
Effective portion of changes in fair value of cash flow hedges	*23*	-	(153)	-	(153)
Income tax on other comprehensive income	*21*	-	26	510	536
Total comprehensive income		**-**	**(127)**	**23,865**	**23,738**
Balance at 31 December 2016		**100,000**	**(127)**	**37,761**	**137,634**
Profit for the year		**-**	**-**	**5,266**	**5,266**
Actuarial gain on defined benefit scheme	*25.7*	**-**	**-**	**2,452**	**2,452**
Effective portion of changes in fair value of cash flow hedges	*23*	**-**	**153**	**-**	**153**
Income tax on other comprehensive income	*21*	**-**	**(26)**	**(417)**	**(443)**
Total comprehensive income		**-**	**127**	**7,301**	**7,428**
Dividends paid		-	-	(20,000)	(20,000)
Balance at 31 December 2017		**100,000**	**-**	**25,062**	**125,062**

Dividends of £0.20 per share were paid during the year (2016: nil).

Notes to the annual financial statements
for the year ended 31 December 2017

1 General Information

Eversholt Rail Limited (formerly trading as Eversholt Rail (UK) Limited) (the "Company") is a private company incorporated and domiciled in England and Wales and is limited by shares (see note 24). The registered office of the Company is 210 Pentonville Road, London, N1 9JY.

2 Basis of Preparation

These financial statements are presented in £'000. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.1 Compliance with International Financial Reporting Standards

The financial statements of Eversholt Rail Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2017, there were no unendorsed standards effective for the year ended 31 December 2017 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the year ended 31 December 2017 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

2.2 Standards and Interpretations issued by the IASB

During the year, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements. At 31 December 2017, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2017. The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. Their adoption does not have a material effect on the financial statements.

- IFRS 9 Financial Instruments (mandatory for periods beginning on or after 1 January 2018).
- IFRS 15 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (mandatory for periods beginning on or after 1 January 2018).
- IFRS 16 Leases (mandatory for periods beginning on or after 1 January 2019).

2.3 Going concern

The Company's forecasts and projections taking account of reasonably possible changes in trading performance show that the Company, having the commitment of support from the parent, has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

3 Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been applied consistently to all years presented in these financial statements.

3.1 Maintenance income and costs

Revenue for the procurement and management of heavy maintenance services rendered is recognised when the services are provided. Amounts received that relate to an obligation to provide services to be performed in future years are included in deferred revenue. When maintenance services are performed, the cost of which will be recovered in future years, the future recoverable amount is included in prepayments. In all cases maintenance service costs are expensed as incurred.

3.2 Finance income and expense

Finance income and expense for all interest bearing financial instruments is recognised in 'Finance income' and 'Finance expense' in the Income statement using the effective interest rate method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

3.3 Fees and commission income

Income earned on the execution of a significant act is recognised as revenue when the act is completed. Income earned from the provision of services is recognised as revenue as the services are provided. Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Finance income'.

3.4 Income tax

Income tax comprises current and deferred tax and is recognised in the Income statement.

Current tax is the tax expected to be payable on the taxable profit for the period, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the relevant entity intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period.

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

3 Summary of significant accounting policies (continued)

3.5 Property, plant and equipment

Equipment, fixtures and fittings are stated at cost less any impairment losses and depreciation calculated on a straight line basis to write off the assets over 5 years.

The depreciation charge is included within Administrative expense in the Income statement.

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset.

At each reporting date, the Company reviews the carrying value of its property, plant and equipment, which includes fixtures and fittings to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The impaired loss is recognised immediately in the Income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised immediately in the Income statement.

3.6 Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL); 'held to maturity investments'; 'available for sale (AFS) financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company holds the following classes of financial assets:

3.6.1 Loans and receivables

Loans and receivables include receivables originated by the Company which are not classified either as held for trading or designated at fair value. Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

3.6.2 Cash and cash equivalents

For the purpose of the Statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

3.6.3 Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the Income statement. The carrying amount of impaired loans on the Statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

Collectively assessed impairment losses are calculated on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified.

Financial assets are written off to the extent that there is no realistic prospect of recovery.

3.6.4 Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other' financial liabilities

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. The Company derecognises the financial liability when the obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

3.6.5 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.6.6 Derivatives and hedge accounting

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate fluctuations.

Derivative financial instruments are recognised at fair value. Where derivatives do not qualify for hedge accounting the gain or loss on remeasurement to fair value is recognised immediately in the Income statement. However, where derivatives qualify for hedge accounting, the Company recognises the effective part of any gain or loss on the derivative financial instrument in Other comprehensive income, which is accounted for in the Hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement.

When the hedging relationship ends the hedging gain or loss recognised in Other comprehensive income is reclassified to the Income statement when the hedged item is recognised in the Income statement. When the hedged item relates to a capital expenditure transaction and the hedging relationship ends, the hedging gain or loss recognised in Other comprehensive income is amortised to Property, plant and equipment over the life of the hedged item.

Movements in deferred tax relating to the effective portion of changes in fair value of derivatives qualifying for hedge accounting are recognised in Other comprehensive income and accumulated in the Hedging reserve.

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

3.6.7 Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

3.7 Statement of cash flows

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in intercompany transactions are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

3.8 Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

Dividends payable in relation to equity shares are recognised as a liability in the period in which they are declared

3.9 Retirement benefit obligations

The Company provides defined benefit and defined contribution schemes on behalf of directors and staff. The defined benefit scheme is funded by contributions partly from the employees and partly from the Company at rates assessed by an independent actuary. These contributions are invested separately from the Company's assets.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

3 Summary of significant accounting policies (continued)

3.9 Retirement benefit obligations (continued)

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the Income statement.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The defined benefit liability recognised in the Statement of financial position represents the fair value of plan assets less present value of defined benefit obligations adjusted for unrecognised past service costs. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value.

3.11 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The provision is recognised as the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

3.12 Use of judgements, estimates and assumptions

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of revision and future years if the revision affects both current and future years.

No significant judgements have been required in the process of applying the Group's accounting policies.

Critical estimates and assumptions in applying the Company's accounting policies

In making the assessment of the valuation of the defined benefit pension obligation, management have made a number of assumptions, based on advice from an independent actuary, which are more fully described in note 25.3.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

3 Summary of significant accounting policies (continued)

3.12 Use of judgements, estimates and assumptions (continued)

Critical estimates and assumptions in applying the Company's accounting policies (continued)

Other than the above, the Company does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

4 Revenue

	2017 £'000	2016 £'000
Maintenance income	**70,264**	68,409
Service charge income	**18,890**	18,334
Other income	**1,728**	2,659
	90,882	89,402

5 Cost of sales

	2017 £'000	2016 £'000
Maintenance cost	49,071	**54,141**

6 Finance income

	2017 £'000	2016 £'000
Bank interest	**760**	76
Other interest	**-**	14
Interest receivable on working capital loan accounts	**42,609**	52,105
Interest receivable on term loan to Eversholt Rail Leasing Limited	**66,517**	51,603
	109,886	103,798

7 Finance expense

	2017 £'000	2016 £'000
Interest expense payable to Eversholt Funding plc	**(105,060)**	(84,907)
Finance charges	**(26)**	-
Fees payable	**(2,190)**	(1,845)
	(107,276)	(86,752)

Notes to the annual financial statements (continued)

for the year ended 31 December 2017

8 Administrative expense

Administrative expense includes the following:

	2017 £'000	2016 £'000
Foreign exchange gain	**27**	-
Depreciation - Premises & IT	**(315)**	(261)
- Inventory	**(206)**	(206)
Defined contribution pension costs	**(735)**	(676)
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**(91)**	(69)
Fees payable to the Company's auditor and its associates for other services		
- For tax related services	**-**	(2)
- For non-audit assurance services	**(54)**	(131)

9 Staff numbers and costs

The average number of persons employed by the Company, including Directors, during the year was as follows:

	2017	2016
Directors	**3**	3
Operations	**64**	65
Administration	**43**	33
	110	101

The aggregate payroll costs of these persons were as follows:

	2017 £'000	2016 £'000
Wages and salaries	**(10,433)**	(10,852)
Social security costs	**(1,333)**	(1,411)
Contributions to defined contribution pension scheme	**(735)**	(676)
Defined benefit pension scheme service cost	**(412)**	(323)
	(12,913)	(13,262)

10 Directors' emoluments

	2017 £'000	2016 £'000
Directors' emoluments for services to the Company	**(1,955)**	**(1,949)**
Number of Directors who are members of a defined benefit pension scheme	**1**	**1**

The emoluments of the highest paid Director, including benefits in kind were £923,928 (2016: £976,148).

The pension contributions paid by the Company in respect of the highest paid Director for the year were nil (2016: £6,740).

None of the Directors have any share options or interests in the share capital of the Company. The Directors are the only key management personnel.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

11 Income tax charge

	Note	2017 £'000	2016 £'000
Current tax			
UK Corporation tax on current year profit		**(4,581)**	(6,442)
Adjustment in respect of prior years		**(13,058)**	360
		(17,639)	(6,082)
Deferred tax			
Origination and reversal of temporary differences	*21*	**161**	(105)
Change in tax rates		**(18)**	(57)
Adjustment in respect of prior year	*21*	**(9)**	(21)
		134	(183)
Income tax charge		**(17,505)**	(6,265)

The corporation tax rate reduction to 19% from 1 April 2017 was substantively enacted on 18 November 2015. A further reduction to 17% from 1 April 2020 was substantively enacted on 15 September 2016. As a result of these reductions the Company's future current tax charge will reduce accordingly.

The deferred tax as at 31 December 2017 has been calculated based on the rate of 17% substantively enacted at the reporting date. The effect of the change in the rate to 17% is included in the financial statements.

The following table reconciles the tax charge which would apply if all profits had been taxed at the UK corporation tax rate:

	2017 £'000	2016 £'000
Profit before tax	**22,771**	32,608
Taxation at UK corporation tax rate of 19.25% (2016: 20%)	**(4,383)**	(6,522)
Amounts not deductible for tax purposes	**(37)**	(25)
Adjustment in respect of prior years	**(13,067)**	339
Change in tax rates	**(18)**	(57)
Income tax charge	**(17,505)**	(6,265)

In addition to the amount charged to the Income statement, the aggregate amount of current and deferred tax relating to components of other comprehensive income resulted in a £442,812 decrease in total comprehensive income (2016: £535,860 increase).

12 Dividends

For the year ended 31 December 2017 dividends of £20,000,000 were paid (2016: £nil).

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

13 Property, plant and equipment

	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost			
Balance at 1 January 2016	1,252	1,927	3,179
Additions	2	225	227
Balance at 31 December 2016	**1,254**	**2,152**	**3,406**
Additions	-	175	175
Acquisition from other group undertakings	53	14	67
Balance at 31 December 2017	**1,307**	**2,341**	**3,648**
Depreciation			
Balance at 1 January 2016	1,194	1,096	2,290
Charge for the year	23	238	261
Balance at 31 December 2016	**1,217**	**1,334**	**2,551**
Charge for the year	42	273	315
Balance at 31 December 2017	**1,259**	**1,607**	**2,866**
Carrying value at 31 December 2017	**48**	**734**	**782**
Carrying value at 31 December 2016	37	818	855

All assets have been pledged to secure borrowings of the Security group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted over the use of proceeds of sale.

14 Inventory

	2017 £'000	2016 £'000
Rolling stock spares	**942**	1,149

Write down in the value of inventories recognised within administrative expenses in the Income statement is an expense amounting to £206,382 (2016: £206,382).

All assets have been pledged to secure borrowings of the Security group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted over the use of proceeds of sale.

15 Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	**728**	111
Other receivables	**12**	12
VAT	**-**	2,125
Overheads prepayment	**683**	747
Maintenance prepayment	**30,093**	27,094
	31,516	30,089

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

16 Amounts owed by group undertakings

	2017 £'000	2016 £'000
Current		
Term lending to Eversholt Rail Leasing Limited	**54,588**	52,243
Non-current		
European Rail Finance Holdings Limited	**2,400**	1,938
Eversholt Finance Holdings Limited	**18**	14
European Rail Finance (2) Limited	**51,003**	48,049
Eversholt Rail Holdings (UK) Limited	**-**	114,479
Eversholt Funding plc	**30,159**	33,943
Eversholt Investment Limited	**57,222**	63,485
Eversholt Depot Finance Limited (formerly trading as Eversholt Depot Finance (UK) Limited)	**10,717**	13,693
Eversholt Rail Leasing Limited	**706,978**	384,153
Eversholt UK Rails (Holding) Limited	**2,243**	-
Term lending to Eversholt Rail Leasing Limited	**1,438,830**	1,493,418
	2,299,570	2,153,172

The term loan with Eversholt Rail Leasing Limited enabled that company to settle in full its rental obligations under a finance lease with European Rail Finance Limited. The loan is repayable on or before 1 April 2036 with capital and interest payable on a monthly basis. Interest is charged at a fixed rate plus margin.

The intragroup working capital loans with other entities are classified as non-current as they are repayable on or before 4 November 2022. Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan is payable monthly at a floating rate, which substantially matches the rate of the Group's senior debt, plus margin (2016: Group's senior debt, plus margin).

17 Cash and cash deposits

Cash and cash deposits are analysed as:

	2017 £'000	2016 £'000
Cash	**6,368**	23,117
Cash demand deposits	**80,000**	-
Cash and cash equivalents	**86,368**	23,117
Short-term bank deposits	**250,000**	-
Cash and cash deposits	**336,368**	23,117

Short-term bank deposits have maturity of between three and twelve months.

18 Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**4,477**	5,156
Other payables	**7,463**	880
Maintenance and administrative accruals	**14,084**	10,462
Amounts payable to Eversholt UK Rails Limited	**10**	-
	26,034	16,498

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

19 Borrowings

	Current 2017 £'000	Non-current 2017 £'000	Current 2016 £'000	Non-current 2016 £'000
European Rail Finance Limited	-	**559,064**	-	558,777
Eversholt Funding plc	-	**1,940,000**	50,000	1,440,000
Eversholt Rail (365) Limited	-	**13,695**	-	22,848
Eversholt Rail (380) Limited	-	-	-	-
Intercompany internal accrued interest	**21,151**	-	14,999	-
	21,151	**2,512,759**	64,999	2,021,625

The loan of £2 with Eversholt Rail (380) Limited is repayable on 4 November 2022. The loan is interest free.

The loan with European Rail Finance Limited is repayable on 4 November 2022. The entity may prepay and redraw its loan until the repayment date, interest is payable monthly at LIBID, less margin. (2016: LIBID, less margin).

The loan with Eversholt Funding plc mirrors the terms of the Group's external debt.

The Eversholt UK Rails (Holding) Limited (Security group) ("Security group") has granted a fixed and floating charge over all of its assets to secure the borrowings of the Security group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted over the use of proceeds of sale.

The loan with Eversholt Rail (365) Limited is unsecured and is repayable on 4 November 2022. The loan is interest free.

Maturity of borrowings

The maturity profile of the carrying amount of Company's non-current borrowings at 31 December 2017 was as follows:

	2017 £'000	2016 £'000
In more than two years but not more than five years	**915,616**	881,625
In more than five years	**1,597,143**	1,140,000
	2,512,759	2,021,625

20 Provisions

	2017 £'000	2016 £'000
Overheads	**35**	35

Provision for overheads relates to disallowable expenses for tax purposes.

	2017 £'000	2016 £'000
Balance at beginning of the year	**35**	1,154
Additions	-	244
Utilised	-	(1,363)
Balance at end of the year	**35**	35

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

21 Deferred tax

	2017 £'000	2016 £'000
Non-current asset		
Balance at beginning of the year	**1,686**	1,333
Amount arising from temporary differences on:		
Capital allowances	**3**	(10)
Movement in provision	**89**	(138)
Movement in pension provision	**69**	43
Prior year adjustment	**(9)**	(21)
Change in tax rates	**(18)**	(57)
Other comprehensive income:		
- Actuarial movement on retirement benefit obligations	**(417)**	510
- Hedging reserve movement	**(26)**	26
Balance at end of the year	**1,377**	1,686

22 Deferred revenue

	2017 £'000	2016 £'000
Arising in respect of maintenance contracts	**24,390**	11,956

The deferred revenue arises in respect of the Company's obligations in respect of maintenance contracts in certain leases. Amounts received in relation to future maintenance costs are deferred and released when these costs are incurred.

23 Derivative financial instruments

	2017 £'000	2016 £'000
Current		
FX forward – liabilities hedged accounted	**-**	153
	-	153

In 2016 the Group entered into foreign exchange forward contracts to hedge the variability in functional currency equivalent cash flows associated with committed Euro denominated capital expenditure. On inception contracts were designated in hedge accounting relationships. These contracts matured in 2017.

Movement in fair value of Derivative financial instruments	2017 £'000	2016 £'000
Balance at 1 January	**(153)**	(60)
Unrealised gain through the Income statement	**-**	60
Unrealised gain/(loss) through Other comprehensive income	**153**	(153)
Balance at 31 December	**-**	(153)

At 31 December 2016, the hedges were deemed to be highly effective. A fair value liability of £153,464 related to the foreign exchange forward contracts.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

23 Derivative financial instruments (continued)

Movement in Hedging reserve

	2017 £'000	2016 £'000
Balance at 1 January	**127**	-
Unrealised (loss)/gain through Other comprehensive income	**(153)**	153
Income tax credit/(charge) on Other comprehensive income	**26**	(26)
Balance at 31 December	**-**	127

24 Share capital

	2017 £'000	2016 £'000
Authorised, allotted, called up and fully paid		
100,000,002 Ordinary shares of £1 each	**100,000**	100,000

The holders of ordinary shares are entitled to attend and vote at general meetings and receive dividends as and when declared.

25 Retirement benefit obligations

25.1 General description of scheme

Final salary pension

The Company provides a defined benefit pension scheme to some employees. Eversholt Rail Limited section (the "Section") is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme. The Section is governed by a trustee board, which is independent of the Company.

The Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The figures reported below therefore represent only the Company's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the year are presented before the deduction of the Members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency, with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

Employer contributions for the year ending 31 December 2017 are 19.1% (2016: 19.1%) of Section Pay.

The Section is open to new members transferring in from other sections of the Railways Pension Scheme.

The Company is exposed to a number of risks relating to the Section including assumptions not being borne out in practice. The most significant risks are as follows:

- Asset volatility: There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's defined benefit obligation ("DBO"). The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term.
- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

25 Retirement benefit obligations (continued)

25.1 General description of scheme (continued)

Final salary pension (continued)

- Inflation risk: The majority of the Section's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.
- Contribution rate: The Scheme Rules give the Scheme Actuary the power to set the contribution rates for the Company if no agreement can be reached between the Trustee and the Company.

25.2 Membership data

	31 December 2017	31 December 2016
Active members		
Number	**17**	17
Number with PRP included	**11**	12
Annual payroll (£'000)	**1,294**	1,275
PRP included (£'000)	**44**	48
Average age	**50.1**	50.8
Deferred members		
Number	**50**	53
Total deferred pensions (£'000)	**360**	373
Average age	**53.1**	52.3
Pensioner members (including dependants)		
Number	**49**	46
Annual pension payroll (£'000)	**1,181**	1,142
Average age	**66.3**	65.4

25.3 Summary of assumptions

	31 December 2017 %pa	31 December 2016 % pa
Discount rate	**2.50**	2.50
Price inflation (RPI measure)	**3.20**	3.25
Increases to deferred pensions (CPI measure)	**2.20**	2.25
Pension increases (CPI measure)	**2.20**	2.25
Salary increases *	**3.20**	4.25

* plus 0.4% pa promotional salary scale.

	Value at 31 December 2017 £'000	Value at 31 December 2016 £'000
Section Assets		
Growth assets	**26,821**	25,937
Defensive pooled fund	**11,491**	12,293
Non-government bonds	**1,765**	706
Other assets	**318**	40
	40,395	38,976

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

25 Retirement benefit obligations (continued)

25.3 Summary of assumptions (continued)

The assumed average expectation of life in years at age 65 is as follows:

	31 December 2017	31 December 2016
Male currently age 65	**23.0**	23.4
Male currently age 45	**24.8**	25.6
Female currently age 65	**23.7**	24.5
Female currently age 45	**25.6**	26.9

25.4 Defined benefit liability at end of year

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Defined benefit liability at end of year		
Active members	**8,388**	10,340
Deferred members	**11,049**	10,997
Pensioner members (incl. dependants)	**27,414**	27,585
Total DBO	**46,851**	48,922
Value of assets at end of year	**(40,395)**	(38,976)
Funded Status at end of year	**6,456**	9,946
Adjustment for the members' share of deficit	**(2,582)**	(3,978)
Net defined benefit liability at end of the year	**3,874**	5,968

25.5 Reconciliation of net defined benefit liability

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Opening Net Defined Benefit liability	**5,968**	2,763
Employer's share of pension expense	**559**	420
Employer contributions	**(201)**	(203)
Total (gain)/ loss recognised in Statement of comprehensive income	**(2,452)**	2,988
Closing net defined benefit liability	**3,874**	5,968

25.6 Pension expense

	Year ended 31 December 2017 £'000	Year Ended 31 December 2016 £'000
Employer's share of service cost	**375**	284
Employer's share of administration costs	**37**	39
Total employer's share of service cost	**412**	323
Employer's share of net interest on net defined benefit liability	**147**	97
Employer's share of pension expense	**559**	420

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

25 Retirement benefit obligations (continued)

25.7 Other comprehensive income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Gain due to liability experience	**(370)**	(600)
(Gain)/loss due to liability assumption changes	**(1,124)**	5,695
Return on plan assets greater than discount rate	**(958)**	(2,107)
Total (gain)/loss recognised in Statement of comprehensive income	**(2,452)**	2,988

25.8 Reconciliation of defined benefit obligation (DBO)

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Opening Defined Benefit Obligation	**48,922**	40,300
Service Cost	**619**	468
Interest Cost on DBO	**1,206**	1,420
Gain on DBO – experience	**(644)**	(1,030)
(Gain)/loss on DBO – financial assumptions	**(1,874)**	9,492
Actual benefit payments	**(1,378)**	(1,728)
Closing defined benefit obligation	**46,851**	48,922

25.9 Reconciliation of value of assets

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Opening value of Section assets	**38,976**	35,695
Interest income on assets	**960**	1,258
Return on plan assets greater than discount rate	**1,597**	3,511
Employer contributions	**201**	203
Employee contributions	**100**	102
Actual benefit payments	**(1,378)**	(1,728)
Administration costs	**(61)**	(65)
Closing value of Section assets	**40,395**	38,976

Tables 25.8 and 25.9 above show the movement in the assets and liabilities of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures which reflect the Company's share of the assets and liabilities associated with the Section.

25.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2017	**Sensitivity**	**Approximate change in DBO £'000**
Discount rate	-0.5% p.a.	(4,400)
Price inflation (CPI measure)*	+0.5% p.a.	4,300
Salary increases	+0.5% p.a.	400
Life expectancy	+1 year	1,300

* Including consistent increases to RPI, salary growth and RPI/CPI related pension increase assumptions

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

25 Retirement benefit obligations (continued)

25.10 DBO sensitivity analysis to significant actuarial assumptions (continued)

The sensitivity figures above are as at 31 December 2017 and based on the DBO noted in table 25.4 following the methodology consistent with prior year.

The Section is subject to a full funding actuarial valuation on a triennial basis. The funding valuation at 31 December 2016 indicated a funding surplus and so no deficit contributions are currently being paid. Employer contributions of 19.1% of Section pay (c.£101,000) are expected in the six months ending 30 June 2018. Future rates are, however, subject to review pending the finalisation of the formal actuarial valuation as at 31 December 2016.

The discounted mean term of the Section's liabilities is 18 years.

26 Risk management

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Company's business. The policies for managing all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements are described in this note.

Capital risk management

The Board actively monitors the capital structure of the Company to ensure that the Company is able to continue as a going concern. Consideration is given to the availability, costs and risks associated with each class of capital (comprising share capital, reserves and long term borrowings).

The Company is not subject to any externally imposed capital requirements.

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract.

The Company manages credit risk by way of established risk management processes encompassing credit approvals and the monitoring and reporting of exposures. Regular reviews are undertaken to assess and evaluate the financial stability of counterparties.

Substantially all of the trade receivables outstanding at 31 December 2017 have been received subsequent to year end.

Liquidity risk management

The Company is responsible for day to day cash management for the Group. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company monitors cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In addition to its cash balances, the Company has access to funds through loans from Eversholt Funding plc which has an undrawn general purposes revolving credit facility of £600m.

Undiscounted cash flows in respect of financial assets and financial liabilities are analysed below by their contractual due date. Undiscounted cash flows in respect of the intercompany loans with other entities include the principal amount of working capital loans only, due to the uncertainty of working capital movements and of interest estimation. Interest on working capital loans is settled as part of working capital cash movements and not accrued.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

26 Risk management (continued)

Liquidity risk management (continued)

	Carrying value £'000	Total undiscounted cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2017						
Financial assets						
Loans and receivables						
- Loans receivable	**860,740**	**860,740**	**-**	**-**	**860,740**	**-**
- Intercompany term lending Eversholt Rail Leasing Limited	**1,493,418**	**1,493,418**	**-**	**54,588**	**243,801**	**1,195,029**
Trade and other receivables	**31,516**	**31,516**	**-**	**31,516**	**-**	**-**
Cash and cash deposits	**336,368**	**336,368**	**86,368**	**250,000**	**-**	**-**
	2,722,042	**2,722,042**	**86,368**	**336,104**	**1,104,541**	**1,195,029**
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instrument	**-**	**-**	**-**	**-**	**-**	**-**
Trade and other payables	**26,034**	**26,034**	**-**	**26,034**	**-**	**-**
Intercompany working capital loans	**572,759**	**572,759**	**-**	**-**	**572,759**	**-**
Intercompany term lending Funding plc	**1,961,151**	**2,779,458**	**-**	**98,908**	**610,279**	**2,070,271**
	2,559,944	**3,378,251**	**-**	**124,942**	**1,183,038**	**2,070,271**
Total financial instruments	**162,098**	**(656,209)**	**86,368**	**211,162**	**(78,497)**	**(875,242)**
31 December 2016						
Financial assets						
Loans and receivables						
- Loans receivable	659,754	659,754	-	-	659,754	-
- Intercompany term lending Eversholt Rail Leasing Limited	1,545,661	1,545,661	-	52,243	233,325	1,260,093
Trade and other receivables	30,089	30,089	-	30,089	-	-
Cash and cash deposits	23,117	23,117	23,117	-	-	-
	2,258,621	2,258,621	23,117	82,332	893,079	1,260,093
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instrument	153	214	-	214	-	-
Trade and other payables	16,498	16,498	-	16,498	-	-
Intercompany working capital loans	581,625	581,625	-	-	581,625	-
Intercompany term lending Funding plc	1,504,999	2,447,680	-	133,449	642,239	1,671,992
	2,103,275	3,046,017	-	150,161	1,223,864	1,671,992
Total financial instruments	155,346	(787,396)	23,117	(67,829)	(330,785)	(411,899)

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

26 Risk management (continued)

Market risk management

The Company hedges against foreign exchange risk on its financial assets and financial liabilities.

Interest rate risk management

The Company has exposure to fluctuations in interest rates. Cash flow exposure to fluctuations in interest rates is managed at a group level through the use of interest rate swaps. The cost or benefit derived from the use of swaps is taken into account in determining the cost of intragroup loans.

Interest rate sensitivity analysis

The impact of a 50 basis points increase in LIBOR would have resulted in an increase of £662,729 in interest expense on intercompany term lending with Eversholt Funding plc, an increase in loans receivable interest income of £1,038,359 and an increase in cash deposit interest received of £826,821. The impact of a 5 basis points increase in GBP LIBID would have resulted in an increase in intercompany working capital loans interest expense of £103,218. The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument.

27 Financial Instruments

The fair values together with the carrying amounts of the financial assets and financial liabilities are as follows:

31 December 2017	Note	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Loans and receivables					
- Loans receivable	*16*	860,740			
- Intercompany term lending Eversholt Rail Leasing Limited	*16*	1,493,418			
Trade and other receivables	*15*	31,516			
Cash and cash equivalents	*17*	336,368			
Total Financial assets		2,722,042			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instrument	*23*	-	-	-	-
Trade and other payables	*18*	26,034			
Intercompany working capital loans	*19*	572,759			
Intercompany fixed rate term loan from Eversholt Funding plc	*19*	1,500,000	-	1,790,147	-
Fixed rate borrowings	*19*	340,000		364,439	
Other borrowings	*19*	121,151			
Total Financial liabilities		2,559,944			
Total Financial instruments		162,098			

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

27 Financial Instruments (continued)

31 December 2016	Note	Carrying amount £'000	Level 1 £'000	Fair value Level 2 £'000	Level 3 £'000
Financial assets					
Loans and receivables					
- Loans receivable	*16*	659,754			
- Intercompany term lending Eversholt Rail Leasing Limited	*16*	1,545,661			
Trade and other receivables	*15*	30,089			
Cash and cash equivalents	*17*	23,117			
Total Financial assets		2,258,621			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instrument	*23*	153	-	153	-
Trade and other payables	*18*	16,498			
Intercompany working capital loans	*19*	581,625			
Intercompany fixed rate term loan from Eversholt Funding plc	*19*	1,100,000	-	1,423,790	-
Fixed rate borrowings	*19*	240,000		262,178	
Other borrowings	*19*	164,999			
Total Financial liabilities	*19*	2,103,275			
Total Financial instruments		155,346			

Intercompany term lending represents fixed rate term loans with a carrying value of £1,500m and a fair value estimated to be £1,790m. The basis of this estimate is the market value of the external debt raised by Eversholt Funding plc and lent to the Company on mirror terms. Apart from intercompany term lending, there are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2017 and 31 December 2016.

28 Related-party transactions

28.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 3) and with other entities in the Eversholt UK Rails Group, namely:

- Eversholt UK Rails Limited
- Eversholt UK Rails (Holding) Limited
- European Rail Finance Holdings Limited
- Eversholt Investment Limited
- European Rail Finance Limited
- Eversholt Rail Leasing Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Finance Holdings Limited
- Eversholt Funding plc
- Eversholt Depot Finance Limited (formerly trading as Eversholt Depot Finance (UK) Limited)
- Eversholt Rail (380) Limited
- Eversholt Rail (365) Limited
- European Rail Finance (2) Limited

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited, incorporated in Cayman Islands. The parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is CK Hutchison Holdings Limited. The immediate holding company is Eversholt Rail Leasing Limited. The results of the Company are included in the Group financial statements of CK Hutchison Holdings Limited.

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

28 Related-party transactions (continued)

28.1 Identity of related parties (continued)

Copies of the Group financial statements of CK Hutchison Holdings Limited may be obtained from the following address (the registered office of the ultimate parent undertaking):
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

28.2 Transactions with related parties

The Company has entered into the following transactions with related parties:

The Company has received fees for the provision of maintenance, procurement and management services to other group companies as follows:

	2017 £'000	2016 £'000
Eversholt Rail Leasing Limited	**86,202**	77,625
European Rail Finance Limited	**-**	100
Eversholt Rail (365) Limited	**11,685**	10,589
Eversholt Depot Finance Limited	**136**	141

Loan accounts are more fully described in notes 16 and 19. Interest receivable/(payable) on these loan accounts is included in notes 6 and 7. Further breakdown of the interest receivable on working capital loans is as follows:

	2017 £'000	2016 £'000
Eversholt Funding plc	**2,695**	2,148
Eversholt Rail Holdings (UK) Limited	**2,362**	7,165
Eversholt Rail Depot Finance Limited	**732**	934
Eversholt Rail Leasing Limited	**29,219**	21,363
European Rail Finance Limited	**(737)**	14,895
European Rail Finance Holdings Limited	**162**	170
Eversholt Investment Limited	**4,626**	2,045
Eversholt Rail Finance (2) Limited	**2,948**	2,898
Eversholt Rail (365) Limited	**-**	486
Eversholt Finance Holdings Limited	**1**	1
Eversholt UK Rails (Holding) Limited	**602**	-

Dividends paid are fully described in note 12.

The Company paid £15,000 to Eversholt Funding plc for funding services (2016: £15,000), £833 to Eversholt Investment Limited for management services (2016: £10,000) and £10,000 to Eversholt UK Rails Limited for management services (2016: £nil). In addition the Company paid a service fee of £87,965 to Eversholt Investment Limited (2016: £782,505).

28.3. Remuneration of key management personnel

	2017 £'000	2016 £'000
Short-term employment benefits	**1,635**	1,589
Post employment benefits	**-**	-
Other long-term employee benefits	**320**	360
	1,955	1,949

Notes to the annual financial statements (continued)
for the year ended 31 December 2017

29 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2017 (2016: nil).

30 Subsequent events

There are no subsequent events requiring disclosure in the financial statements.