Eversholt Rail (UK) Limited

Annual report and financial statements
for the year ended 31 December 2016

Registered No: 06953114

Annual report and financial statements
for the year ended 31 December 2016

Contents

Strategic report
for the year ended 31 December 2016

Business Review

Eversholt Rail (UK) Limited (the "Company"), is incorporated and domiciled in England and Wales. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 26.

During the year the Company continued to provide support services to the Group including managing the maintenance of rolling stock, providing asset management services, negotiating and agreeing terms and arranging the execution of all lease documents on behalf of the Group.

Risk management

Underpinning all of the Group's activities is the primary requirement to effectively manage safety risks and the risk that issues for which the Group is responsible could lead to a safety incident. 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.

The Company has established financial risk management objectives and policies. These objectives together with an analysis of the exposure to such risks, are set out in note 24 of the financial statements.

Performance

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

The Group is financed by a mix of equity and senior debt. The terms of senior debt require compliance with certain covenants and ratios which are calculated and forecast as part of monthly internal management reporting. In addition to key financial measures, the Group monitors a number of key non-financial indicators relating to asset performance including condition, reliability and maintenance as well as the number and value of off-lease assets.

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.

Signed on behalf of the Board by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

13 February 2017

Directors' report
for the year ended 31 December 2016

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2016.

Future developments

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016 (2015: £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.

Directors

The Directors who served during the year were as follows:

M B Kenny	
A J Course	
D G Stickland	Resigned 20 July 2016
A J Wesson	Appointed 20 July 2016

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, their interests in the holding company are more fully described in note 26.

Capital and risk management

The Company is not subject to externally imposed capital requirements and is dependent on the Group to provide necessary capital resources which are therefore managed on a group basis.

It is the Group's objective to maintain a strong capital base to support the development of its business.

The Company's risk management is more fully described in the Strategic report.

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.

Directors' report (continued)
for the year ended 31 December 2016

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.

Signed on behalf of the Board by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

13 February 2017

Statement of Directors' responsibilities
for the year ended 31 December 2016

The Directors are responsible for preparing the Strategic report, Directors' 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 13 February 2017 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 (UK) Limited
for the year ended 31 December 2016

We have audited the financial statements of Eversholt Rail (UK) Limited for the year ended 31 December 2016, 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 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Director's responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

As explained in note 2 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the IASB and are effective.

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion 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 and the Directors' Report.

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

for the year ended 31 December 2016

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

14 February 2017

Income statement
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue			
Maintenance income		**68,409**	78,967
Service charge income		**18,334**	18,433
Other income		**2,659**	956
Total revenue		**89,402**	98,356
Cost of sales		**(54,141)**	(63,143)
Gross profit		**35,261**	35,213
Finance income	*4*	**103,798**	91,132
Finance expense	*5*	**(86,752)**	(86,005)
Profit/(loss) on fair value adjustment of derivative financial instruments		**60**	(10)
Pension finance expense	*23.6*	**(97)**	(92)
Administrative expense	*6*	**(19,662)**	(22,223)
Loss on disposal of property, plant and equipment		**-**	(164)
Profit before tax		**32,608**	17,851
Income tax charge	*9*	**(6,265)**	(4,087)
Profit for the year		**26,343**	13,764

There were no discontinued or discontinuing operations during the year.

The notes on pages 12 to 32 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the year		**26,343**	13,764
Other comprehensive (expense)/income			
Actuarial (losses)/gains on defined benefit scheme	*23.7*	**(2,988)**	145
Tax in respect of actuarial gains/(losses) on defined benefit scheme	*19*	**510**	(26)
Effective portion of changes in fair value of cash flow hedges	*21*	**(153)**	-
Income tax on other comprehensive income	*19*	**26**	-
		(2,605)	119
Total comprehensive income for the year		**23,738**	13,883

Statement of financial position
as at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	855	889
Deferred tax	19	1,686	1,333
Loans receivable	14	2,153,172	1,496,628
		2,155,713	1,498,850
Current assets			
Inventory	12	1,149	1,355
Trade and other receivables	13	30,089	26,805
Loans receivable	14	52,243	-
Cash and cash equivalents	15	23,117	45,339
		106,598	73,499
Total assets		2,262,311	1,572,349
Liabilities and equity			
Current liabilities			
Trade and other payables	16	16,498	16,017
Current tax – amounts due to group relief		3,442	4,538
Borrowings	17	64,999	37,664
Provisions	18	35	1,154
Derivative financial instruments	21	153	60
		85,127	59,433
Non-current liabilities			
Retirement benefit obligation	23	5,968	2,763
Borrowings	17	2,021,625	1,389,493
Deferred revenue	20	11,956	6,763
		2,039,549	1,399,019
Total liabilities		2,124,676	1,458,452
Equity			
Share capital	22	100,000	100,000
Hedging reserve		(127)	-
Retained earnings		37,762	13,897
Total equity		137,635	113,897
Total equity and liabilities		2,262,311	1,572,349

The notes on pages 12 to 32 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 13 February 2017. 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 2016

	Note	2016 £'000	2015 £'000
Cash flow from operating activities			
Profit before tax		**32,608**	17,851
Adjustments for:			
- Depreciation	*11*	**261**	520
- Write down of inventory	*12*	**206**	207
- Loss on disposal of property, plant and equipment		**-**	164
- (Profit)/loss on fair value of derivative		**(60)**	10
- Finance income	*4*	**(103,798)**	(91,132)
- Finance expense	*5*	**86,752**	86,005
- Adjustment for non-cash element of pension charge		**217**	222
Operating cash flow before working capital		**16,186**	13,847
Increase in trade and other receivables		**(3,284)**	(8,958)
Increase in trade and other payables		**481**	4,362
Increase/(decrease) in deferred revenue		**5,193**	(791)
Decrease in provision		**(1,119)**	(31)
Cash flow generated by operating activities		**17,457**	8,429
Taxation paid		**(7,178)**	(2,661)
Net cash generated by operating activities		**10,279**	5,768
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(227)**	(460)
Net cash utilised in investing activities		**(227)**	(460)
Cash flow from financing activities			
Movement in working capital loan accounts		**1,365,568**	48,470
Loan borrowed from Eversholt Funding plc		**130,000**	(25,000)
Loan raised to European Rail Finance GB Limited		**(1,545,661)**	-
Intercompany accrued interest		**773**	1,052
Finance income received		**103,798**	91,132
Finance expense paid		**(86,752)**	(86,005)
Net cash (utilised in)/generated by financing activities		**(32,274)**	29,649
Net movement in cash and cash equivalents		**(22,222)**	34,957
Cash and cash equivalents at beginning of the year		**45,339**	10,382
Cash and cash equivalents at end of the year	*15*	**23,117**	45,339

Statement of changes in equity
for the year ended 31 December 2016

	Note	Share capital £'000	Hedging Reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	*22*	**100,000**	**-**	**14**	**100,014**
Profit for the year		-	-	13,764	13,764
Actuarial gain on defined benefit scheme after tax	*23.7*	-	-	145	145
Income tax on other comprehensive income	*19*	-	-	(26)	(26)
Balance at 31 December 2015		**100,000**	**-**	**13,897**	**113,897**
Profit for the year		-	-	26,343	26,343
Actuarial loss on defined benefit scheme after tax	*23.7*	-	-	(2,988)	(2,988)
Income tax on other comprehensive income	*19*	-	-	510	510
Effective portion of changes in fair value of cash flow hedges		-	(153)	-	(153)
Income tax on other comprehensive income	*19*	-	26	-	26
Balance at 31 December 2016		**100,000**	**(127)**	**37,762**	**137,635**

Dividends per share paid during the year is £nil (2015: £nil per share).

Notes to the annual financial statements
for the year ended 31 December 2016

1 General Information

Eversholt Rail (UK) Limited (the "Company") is a private company incorporated and domiciled in England and Wales and is limited by authorised shares (see note 22). 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 (UK) Limited have been prepared on the historical cost basis. 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 2016, there were no unendorsed standards effective for the year ended 31 December 2016 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 2016 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 2016, a number of standards and amendments to standards has been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2016. The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (mandatory for periods beginning on or after 1 January 2018).
- Amendments to IAS 7 Disclosure Initiative (mandatory for periods beginning on or after 1 January 2017).
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (mandatory for periods beginning on or after 1 January 2017).
- IFRS 16 Leases (mandatory for periods beginning on or after 1 January 2019).
- 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).
- Clarifications to IFRS 15 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).

2 Basis of Preparation (continued)

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 the operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.

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

Income received for the procurement of maintenance is recognised by reference to the timing of the related expenditure and is deferred to the extent that it relates to future maintenance procurement costs for the current contract.

Maintenance procurement costs are written off when incurred, except to the extent that they are in respect of future maintenance procurement costs during the current contract.

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.

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 2016

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 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 a year's maturity from the date of acquisition, and include cash.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

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 a variety of 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.

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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

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 Use of assumptions and estimates

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 period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

3 Summary of significant accounting policies (continued)

3.9 Use of assumptions and estimates (continued)

Critical judgements in applying the Company's accounting policies

The following are the critical judgements and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

3.9.1 Depreciation

Depreciation is recognised so as to write down the cost of assets over their useful lives. In making their judgement of the useful life, management have considered the effect of wear and tear and maintenance of the asset.

3.9.2 Valuation of defined benefit pension obligation

In making the assessment of the valuation of the defined benefit pension obligation, management have made a number of assumptions more fully described in note 23.

3.9.3 Maintenance

The maintenance accounting model uses a number of assumptions including management forecasts of future maintenance activities.

3.10 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 independent actuaries. These contributions are invested separately from the Company's assets.

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/(asset) 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/(asset).

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.

3.11 Inventories

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

3.12 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.

4 Finance income

	2016 £'000	2015 £'000
Bank interest	**76**	188
Other interest	**14**	-
Interest on working capital loans	**52,105**	90,944
Interest on European Rail Finance (GB) Limited term loan	**51,603**	-
	103,798	91,132

5 Finance expense

	2016 £'000	2015 £'000
Finance charge payable to Eversholt Funding plc	**(84,907)**	(83,928)
Fees payable	**(1,845)**	(2,063)
Other interest	**-**	(14)
	(86,752)	(86,005)

6 Administrative expense

Administrative expense includes the following:

	2016 £'000	2015 £'000
Foreign exchange gain/(loss)	**-**	(116)
Depreciation - Premises & IT	**(261)**	(520)
- Inventory	**(206)**	(207)
Defined contribution pension costs	**(676)**	(630)
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**(69)**	(22)
Fees payable to the Company's auditor and its associates for other services		
- Tax services	**(2)**	-
- Other services	**(131)**	-

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

7 Staff numbers and costs

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

	2016	2015
Directors	**3**	3
Operations	**65**	65
Administration	**33**	36
	101	104

The aggregate payroll costs of these persons were as follows:

	2016 £'000	2015 £'000
Wages and salaries	**(10,852)**	(11,300)
Social security costs	**(1,411)**	(1,356)
Contributions to defined contribution pension scheme	**(676)**	(630)
Defined benefit pension scheme service cost	**(323)**	(442)
	(13,262)	(13,728)

8 Directors' emoluments

	2016 £'000	2015 £'000
Directors' emoluments for services to the Company	**1,949**	2,390
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 £976,148 (2015: £999,967). The above total emoluments includes an under accrual for 2015 LTIPS. The 2016 LTIPS is also an accrual subject to ratification in 2017.

The pension contributions paid by the Company in respect of the highest paid Director for the year were £6,740 (2015: £26,981).

None of the Directors have any share options or interests in the share capital of the Company. Their interest in the holding company is more fully disclosed in note 26. The Directors are the only key management personnel.

9 Income tax charge

	Note	2016 £'000	2015 £'000
Current tax			
UK Corporation tax on current year profit		**(6,442)**	(4,538)
Adjustment in respect of prior year		**360**	169
		(6,082)	(4,369)
Deferred tax			
Origination and reversal of temporary differences	*19*	**(105)**	577
Change in tax rates		**(57)**	(168)
Adjustment in respect of prior year	*19*	**(21)**	(127)
		(183)	282
Income tax charge		**(6,265)**	(4,087)

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

9 Income tax charge (continued)

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

	2016 £'000	2015 £'000
Taxation at UK corporation tax rate of 20% (2015: 20.25%)	**(6,522)**	(3,615)
Amounts not deductible for tax purposes	**(25)**	(346)
Adjustment in respect of prior year	**339**	42
Change in tax rates	**(57)**	(168)
Income tax charge	**(6,265)**	(4,087)

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 £535,860 increase in total comprehensive income (2015: £26,458 decrease).

10 Dividends

For the year ended 31 December 2016 no dividend has been paid or declared (2015: £nil).

11 Property, plant and equipment

	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost			
Balance at 1 January 2015	1,225	1,907	3,132
Additions	27	433	460
Disposal	-	(413)	(413)
Balance at 31 December 2015	**1,252**	**1,927**	**3,179**
Additions	2	225	227
Balance at 31 December 2016	**1,254**	**2,152**	**3,406**
Depreciation			
Balance at 1 January 2015	1,001	1,018	2,019
Charge for the year	193	327	520
Disposal	-	(249)	(249)
Balance at 31 December 2015	**1,194**	**1,096**	**2,290**
Charge for the year	23	238	261
Balance at 31 December 2016	1,217	1,334	**2,551**
Carrying value at 31 December 2016	**37**	**818**	**855**
Carrying value at 31 December 2015	58	831	889

12 Inventory

	2016 £'000	2015 £'000
Rolling stock spares	**1,149**	1,355

Write down in the value of inventories recognised within administrative expenses in the Income statement is an expense amounting to £206,382 (2015: £206,382) Inventory is measured at the lower of cost or net realisable value.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

13 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	**111**	238
Other receivables	**12**	12
VAT	**2,125**	2,488
Overheads prepayment	**747**	464
Maintenance prepayment	**27,094**	23,603
	30,089	26,805

14 Loans receivable

	2016 £'000	2015 £'000
Current		
Term lending to European Rail Finance (GB) Limited	**52,243**	-
Non-current		
European Rail Finance Holdings Limited	**1,938**	2,385
Eversholt Finance Holdings (UK) Limited	**14**	8
European Rail Finance (2) Limited	**48,049**	44,133
Eversholt Rail Holdings (UK) Limited	**114,479**	112,050
European Rail Finance Limited	**-**	988,238
Eversholt Rail (365) Limited	**-**	18,118
Eversholt Funding plc	**33,943**	34,951
Eversholt Investment Limited	**63,485**	8,134
Eversholt Depot Finance (UK) Ltd	**13,693**	15,998
European Rail Finance (GB) Limited	**384,153**	272,613
Term lending to European Rail Finance (GB) Limited	**1,493,418**	-
	2,153,172	1,496,628

The term loan with European Rail Finance (GB) Limited enabled European Rail Finance (GB) Limited to settle in full, its rental obligations under the 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 LIBOR plus margin.

The intragroup working capital loans with other entities are classified as non-current as they are repayable on or before 4 November 2018. 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 (2015: group's senior debt, plus margin).

15 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2016 £'000	2015 £'000
Interest bearing	**23,117**	45,339

As at 31 December 2016 all funds were held in short term bank deposit accounts and liquidity funds.

16 Trade and other payables

	2016 £'000	2015 £'000
Trade payables	**5,156**	7,146
Other payables	**880**	805
Maintenance and administrative accruals	**10,462**	8,066
	16,498	16,017

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

17 Borrowings

	Current 2016 £'000	Non - current 2016 £'000	Current 2015 £'000	Non - current 2015 £'000
Eversholt Rail (380) Limited	-	-	3,438	-
European Rail Finance Limited	-	558,777	-	-
Eversholt Funding plc	50,000	1,440,000	20,000	1,340,000
Eversholt Rail (365) Limited	-	22,848	-	49,493
Intercompany internal accrued interest	14,999	-	14,226	-
	64,999	2,021,625	37,664	1,389,493

The loan with Eversholt Rail (380) Limited stands at £2 and is repayable on demand. This loan is interest free.

The intragroup working capital loan with European Rail Finance Limited is classified as non-current as it is repayable on 4 November 2018. 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 (2015: group's senior debt, plus margin).

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

The loan with Eversholt Rail (365) Limited is unsecured and is repayable on 4 November 2018. The loan is interest free.

Maturity of borrowings

The maturity profile of the carrying amount of Company's non-current borrowings at 31 December 2016 was as follows:

	Eversholt Funding plc 2016 £'000	Eversholt Funding plc 2015 £'000
In more than two years but not more than five years	300,000	300,000
In more than five years	1,140,000	1,040,000
	1,440,000	1,340,000

18 Provisions

	2016 £'000	2015 £'000
Overheads	35	320
Engineering costs	-	834
	35	1,154

Provision for overheads relates to disallowable expenses for tax purposes. Provision for engineering costs related to the cost of endemic faults to rolling stock. The projects to rectify these faults were completed during the period.

	Overheads 2016 £'000	Engineering costs 2016 £'000	Total 2016 £'000	Total 2015 £'000
Balance at beginning of the year	320	834	1,154	1,185
Additions	35	209	244	509
Utilised	(320)	(1,043)	(1,363)	(540)
Balance at end of the year	35	-	35	1,154

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

19 Deferred tax

	2016 £'000	2015 £'000
Non-current asset		
Balance at beginning of the year	**1,333**	1,077
Amount arising from temporary differences on:		
Capital allowances	**(10)**	58
Movement in provision	**(138)**	468
Movement in pension provision	**43**	51
Prior year adjustment	**(21)**	(127)
Change in tax rates	**(57)**	(168)
Other comprehensive income:		
- Actuarial movement on retirement benefit obligations	**510**	(26)
- Hedging reserve movement	**26**	-
Balance at end of the year	**1,686**	1,333

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.

20 Deferred revenue

Rentals received in relation to future maintenance costs are deferred and released when these costs are incurred.

	2016 £'000	2015 £'000
Arising in respect of maintenance contracts	**11,956**	6,763

21 Derivative financial instruments

	2016 £'000	2015 £'000
Current		
FX forward - liabilities	-	60
FX forward – liabilities hedged accounted	**153**	-
	153	60

During the year the Group entered into foreign exchange forward contracts to hedge the variability in functional currency equivalent cash flows associated with committed EUR denominated capital expenditure. On inception contracts were designated in hedge accounting relationships.

Counterparty	Notional amount 2016 £'000	Maturity date	Fair value 2016 £'000	Other comprehensive income 2016 £'000	Ineffective profit 2016 £'000	Realised gain/(loss) 2016 £'000
Relationship bank	13,600	25 October 2017	153	153	-	-

As at 31 December 2016, the hedges were deemed to be highly effective and the fair value asset of the foreign exchange forward contracts was £153,464 (31 December 2015: Nil).

22 Share capital

	2016 £'000	2015 £'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.

23 Retirement benefit obligations

23.1 General description of scheme

Final salary pension

The Company provides a defined benefit pension scheme to its employees.

The Eversholt Rail (UK) 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 2016 are 19.1% (2015: 19.1%) of Section Pay.

The Section is open to new members.

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 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.
- 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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

23 Retirement benefit obligations (continued)

23.2 Membership data

	31 December 2016	31 December 2015
Active members		
Number	**17**	21
Number with PRP included	**12**	15
Annual payroll (£'000)	**1,275**	1,610
PRP included (£'000)	**48**	60
Average age	**50.8**	49.5
Deferred members		
Number	**53**	51
Total deferred pensions (£'000)	**373**	339
Average age	**52.3**	51.1
Pensioner members (including dependants)		
Number	**46**	45
Annual pension payroll (£'000)	**1,142**	1,122
Average age	**65.4**	64.5

23.3 Summary of assumptions

	31 December 2016 %pa	31 December 2015 % pa
Discount rate	**2.50**	3.60
Price inflation (RPI measure)	**3.25**	3.05
Increases to deferred pensions (CPI measure)	**2.25**	2.05
Pension increases (CPI measure)	**2.25**	2.05
Salary increases *	**4.25**	4.05

* plus 0.4% pa promotional salary scale.

	Value at 31 December 2016 £'000	Value at 31 December 2015 £'000
Growth assets	**25,937**	23,055
Defensive pooled fund	**12,293**	12,471
Non-Government bonds	**706**	-
Other assets	**40**	169
	38,976	35,695

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

23 Retirement benefit obligations (continued)

23.3 Summary of assumptions (continued)
The assumed average expectation of life in years at age 65 is as follows:

		31 December 2016	31 December 2015
Male currently age 65	Pension under £10,300 pa or pensionable pay under £35,000 pa	**21.0**	21.0
	Others	**23.4**	23.4
Male currently age 45	Pension under £10,300 pa or pensionable pay under £35,000 pa	**23.3**	23.3
	Others	**25.7**	25.7
Female currently age 65	Pension under £3,700 pa or pensionable pay under £35,000	**22.8**	22.8
	Others	**24.6**	24.6
Female currently age 45	Pension under £3,700 pa or pensionable pay under £35,000	**25.2**	25.2
	Others	**27.0**	27.0

23.4 Defined Benefit liability at end of year

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Defined Benefit liability at end of year		
Active members	**10,340**	9,531
Deferred members	**10,997**	7,518
Pensioner members (incl. dependants)	**27,585**	23,251
Total	**48,922**	40,300
Value of assets at end of year	**(38,976)**	(35,695)
Funded Status at end of year	**9,946**	4,605
Adjustment for the members' share of deficit	**(3,978)**	(1,842)
Net Defined Benefit liability at end of the year	**5,968**	2,763

23.5 Reconciliation of Net Defined Benefit liability

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening Net Defined Benefit liability	**2,763**	2,686
Employer's share of pension expense	**420**	534
Employer contributions	**(203)**	(312)
Total loss/(gain) recognised in Statement of comprehensive income	**2,988**	(145)
Closing Net Defined Benefit liability	**5,968**	2,763

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

23 Retirement benefit obligations (continued)

23.6 Pension expense

	Year ended 31 December 2016 £'000	Year Ended 31 December 2015 £'000
Employer's share of service cost	**284**	395
Employer's share of administration costs	**39**	47
Total employer's share of service cost	**323**	442
Employer's share of net interest on net defined benefit liability	**97**	92
Employer's share of pension expense	**420**	534

23.7 Other comprehensive income

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Loss due to liability experience	**(600)**	41
Loss due to liability assumption changes	**5,695**	194
Return on plan assets greater than discount rate	**(2,107)**	(380)
Total loss/(gain) recognised in Statement of comprehensive income	**2,988**	(145)

23.8 Reconciliation of Defined Benefit Obligation (DBO)

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening Defined Benefit Obligation	**40,300**	39,025
Service Cost	**468**	651
Interest Cost on DBO	**1,420**	1,385
Loss on DBO – experience	**(1,030)**	11
Loss on DBO – financial assumptions	**9,492**	323
Actual benefit payments	**(1,728)**	(1,095)
Closing Defined Benefit Obligation	**48,922**	40,300

23.9 Reconciliation of value of assets

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening value of Section assets	**35,695**	34,548
Interest income on assets	**1,258**	1,231
Return on plan assets greater than discount rate	**3,511**	634
Employer contributions	**203**	312
Employee contributions	**102**	143
Actual benefit payments	**(1,728)**	(1,095)
Administration costs	**(65)**	(78)
Closing value of Section assets	**38,976**	35,695

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

23 Retirement benefit obligations (continued)

23.9 Reconciliation of value of assets (continued)

Tables 23.8 and 23.9 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.

23.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2016	Sensitivity	Approximate change in DBO £'000
Discount rate	-1.0% p.a.	9,000
Price inflation (CPI measure)*	+0.5% p.a.	4,300
Salary increases	+0.5% p.a.	500
Life expectancy	+1 year	1,500

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

The sensitivity figures above are as at 31 December 2016 and based on the DBO noted in table 23.4 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 2013 indicated a funding surplus and so no deficit contributions are currently being paid. Employer contributions of 19.1% of Section pay (c.£203,000) are expected in the year ending 31 December 2017. This rate is expected to continue until 30 June 2018 when the employer contribution will revert to 60% of the long-term joint contribution rate of 28.7% of Section Pay. Future rates are, however, subject to review as part of the formal actuarial valuation as at 31 December 2016.

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

24 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. None of the assets were quoted on an active investment market.

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 costs and risks associated with each class of capital and to maximising the return to stakeholders through the optimisation of the debt to equity ratio.

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 2016 have been received subsequent to year end.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

24 Risk management (continued)

Liquidity risk management

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

The Company monitors the Company's cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. The Company maintains a revolving credit facility of £600m.

The Company's assets, net of deferred tax, are funded principally by borrowings from other group entities.

Contractual undiscounted cash flows payable to meet 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.

	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 2016						
Financial assets						
Loans and receivables						
- Loans receivable	**659,754**	**659,754**	-	-	**659,754**	-
- Intercompany term lending European Rail Finance (GB) Limited	**1,545,661**	**1,545,661**	-	**52,243**	-	**1,493,418**
- Trade and other receivables	**30,089**	**30,089**	-	**30,089**	-	-
Cash and cash equivalents	**23,117**	**23,117**	**23,117**	-	-	-
	2,258,621	**2,258,621**	**23,117**	**82,332**	**659,754**	**1,493,418**
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instrument	**153**	**214**	-	**214**	-	-
Non-derivative instruments – amortised cost						
- 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)**	**(564,110)**	**(178,574)**
31 December 2015						
Financial assets						
Loans and receivables						
- Loans receivable	1,496,628	1,496,628	-	-	1,496,628	-
- Trade and other receivables	26,805	26,805	-	26,805	-	-
Cash and cash equivalents	45,339	45,339	45,339	-	-	-
	1,568,772	1,568,772	45,339	26,805	1,496,628	-
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instrument	60	63	-	63	-	-
Non-derivative instruments – amortised cost						
- Trade and other payables	16,017	16,017	-	16,017	-	-
- Intercompany working capital loans	52,931	52,931	-	-	52,931	-
- Intercompany term lending	1,374,226	2,228,603	-	100,123	630,213	1,498,267
	1,443,234	2,297,614	-	116,203	683,144	1,498,267
Total financial instruments	125,538	(728,842)	45,339	(89,398)	813,484	(1,498,267)

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

24 Risk management (continued)

Liquidity risk management (continued)

Market risk management

The Company hedges against foreign exchange risk on its financial assets or 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 a decrease of £768,548 in intercompany term lending interest expense, a decrease in working capital interest income of £2,507,404 and an increase in cash deposit interest received of £82,706. The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument.

25 Financial Instruments

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

31 December 2016	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	*14*	**659,754**			
- Intercompany term lending European Rail Finance (GB) Limited	*14*	**1,545,661**			
- Trade and other receivables	*13*	**30,089**			
- Cash and cash equivalents	*15*	**23,117**			
Total Financial assets		**2,258,621**			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instrument	*21*	**153**		**153**	
Non-derivative instruments – amortised cost					
- Trade and other payables	*16*	**16,498**			
- Intercompany working capital loans	*17*	**581,625**			
- Intercompany term lending Funding plc	*17*	**1,100,000**		**1,423,790**	
- Other borrowings	*17*	**404,999**			
Total Financial liabilities		**2,103,275**			
Total Financial instruments		**155,346**			

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

25 Financial Instruments (continued)

31 December 2015	Note	Carrying amount	Level 1	Fair value Level 2	Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Loans and receivables					
- Loans receivable	*14*	1,496,628			
- Trade and other receivables	*13*	26,805			
- Cash and cash equivalents	*15*	45,339			
Total Financial assets		1,568,772			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instrument	*21*	60		60	
Non-derivative instruments – amortised cost					
- Trade and other payables	*16*	16,017			
- Intercompany working capital loans	*17*	52,931			
- Intercompany term lending Funding plc	*17*	1,100,000		1,350,786	
- Other borrowings	*17*	274,226			
Total Financial liabilities	*17*	1,443,234			
Total Financial instruments		125,538			

Intercompany term lending represents fixed rate term loans with a carrying value of £1,100m and a fair value estimated to be £1,424m. 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 2016 and 31 December 2015.

26 Related-party transactions

26.1 Identity of related parties

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

- European Rail Finance Holdings Limited
- Eversholt Investment Limited
- European Rail Finance Limited
- European Rail Finance (GB) Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Finance Holdings Limited
- Eversholt Funding plc
- 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 Hong Kong. It was previously Eversholt Investment Group (Luxembourg) sarl. 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 Holdings Limited. The results of the Company are included in the Group financial statements of CK Hutchison Holdings Limited.

Copies of the Group financial statements may be obtained from the following address:
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

26 Related-party transactions (continued)

26.2 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:

	2016 £'000	**2015 £'000**
European Rail Finance (GB) Limited	**17,352**	2,128
European Rail Finance Limited	**100**	14,192
Eversholt Rail (380) Limited	**-**	1,080
Eversholt Rail (365) Limited	**742**	888
Eversholt Depot Finance (UK) Limited	**141**	146

Loan accounts are more fully described in notes 14 and 17. Interest receivable/(payable) on these loan accounts is included in notes 4 and 5. Further breakdown of the interest receivable on working capital loans is as follows:

	2016 £'000	**2015 £'000**
Eversholt Funding plc	**2,148**	800
Eversholt Rail Holdings (UK) Limited	**7,165**	6,790
Eversholt Rail Depot Finance Limited	**934**	1,082
Eversholt Rail (380) Limited	**-**	9,453
Eversholt Rail Finance (GB) Limited	**21,363**	7,899
European Rail Finance Limited	**14,895**	60,517
European Rail Finance Holdings Limited	**170**	153
Eversholt Investment Limited	**2,045**	3,155
Eversholt Rail Finance (2) Limited	**2,898**	7
Eversholt Rail (365) Limited	**486**	1,088
Eversholt Finance Holdings Limited	**1**	-

Dividends paid are fully described in note 10.

The Company has paid £15,000 to Eversholt Funding plc for funding services (2015: £15,000) and £10,000 to Eversholt Investment Limited for management services (2015: £10,000).

The Directors held the following interests in Eversholt Investment Group (Luxembourg) sarl:

Preferred Equity Certificates	**MB Kenny**
Certificates held at 31 December 2014	**321,568**
Certificates redeemed	(321,568)
Certificates held at 31 December 2015 and 2016	-

Ordinary shares held	
Shares held at 31 December 2014	**901**
Shares redeemed	(901)
Shares held at 31 December 2015 and 2016	-

27 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2016 (2015: nil).

28 Subsequent events

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