

Eversholt Rail (UK) Limited

Annual report and financial statements
for the year ended 31 December 2015

Registered No: 06953114

Annual report and financial statements

for the year ended 31 December 2015

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Strategic report

for the year ended 31 December 2015

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 25.

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

The business is funded principally by external funding. In 2014 the terms of intragroup funding arrangements were revised to more closely align with the terms of the Group's external financing. Details are more fully described in notes 14 and 17.

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 fixed rate, 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 key performance indicator used by management in assessing the performance of the Company is the monitoring of actual group cash flows in comparison with the planned cash flows. Monthly management accounts are prepared at a group level and reviewed by management of the Group.

Signed on behalf of the Board by:



M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

22 February 2016

Directors' report

for the year ended 31 December 2015

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2015.

Future developments

No further 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 2015 (2014: £27,300,000). 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

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 25.

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the Eversholt Rail 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.

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 2015

Auditor

KPMG LLP have resigned as auditor of the Company. Pursuant to Section 487 of the Companies Act 2006, Deloitte LLP have been appointed as auditor.

Signed on behalf of the Board by:

A handwritten signature in blue ink, consisting of a stylized, cursive 'M' followed by a horizontal line and a vertical tick mark at the end.

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

22 February 2016

Statement of Directors' responsibilities

for the year ended 31 December 2015

The Directors are responsible for preparing the Annual report and 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 period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 22 February 2016 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 2015

We have audited the financial statements of Eversholt Rail (UK) Limited for the year ended 31 December 2015, 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 27. 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.

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 2015 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.

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

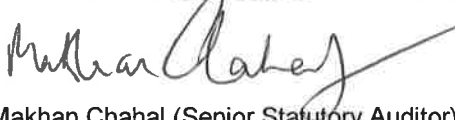
**Independent Auditor's Report to the Members of Eversholt Rail (UK) Limited
(continued)**

for the year ended 31 December 2015

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.



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

25th February 2016

Eversholt Rail (UK) Limited

Income statement

for the year ended 31 December 2015

	<i>Note</i>	2015 £'000	2014 £'000
Revenue			
Maintenance income		78,967	73,182
Service charge income		18,433	15,053
Other income		956	1,347
Total revenue		<u>98,356</u>	<u>89,582</u>
Cost of sales		<u>(63,143)</u>	<u>(62,242)</u>
Gross Profit		35,213	27,340
Finance income	4	91,132	87,110
Finance expense	5	(86,005)	(80,885)
Loss on fair value adjustment of derivative financial instrument		(10)	(50)
Pension finance expense	23.6	(92)	(8)
Administrative expense	6	(22,223)	(19,926)
Loss on disposal of property, plant and equipment		<u>(164)</u>	<u>-</u>
Profit before tax		17,851	13,581
Income tax charge	9	<u>(4,087)</u>	<u>(3,454)</u>
Profit for the year		<u>13,764</u>	<u>10,127</u>

There were no discontinued or discontinuing operations during the year.

The notes on pages 12 to 31 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2015

	<i>Note</i>	2015 £'000	2014 £'000
Profit for the year		13,764	10,127
Other comprehensive income/(expense)			
Actuarial gains/(losses) on defined benefit scheme	23.7	145	(2,268)
Tax in respect of actuarial gains/(losses) on defined benefit scheme		<u>(26)</u>	487
		<u>119</u>	<u>(1,781)</u>
Total comprehensive income for the year		<u>13,883</u>	<u>8,346</u>

Statement of financial position
as at 31 December 2015

	<i>Note</i>	2015 £'000	2014 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	889	1,113
Deferred tax	19	1,333	1,077
Loans receivable	14	1,496,628	1,529,919
		<u>1,498,850</u>	<u>1,532,109</u>
Current assets			
Inventory	12	1,355	1,562
Trade and other receivables	13	26,805	17,847
Cash and cash equivalents	15	45,339	10,382
		<u>73,499</u>	<u>29,791</u>
Total assets		<u>1,572,349</u>	<u>1,561,900</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	16	16,017	11,655
Current tax – amounts due to group relief		4,538	2,830
Borrowings	17	37,664	48,174
Provisions	18	1,154	1,185
Derivative financial instruments	21	60	28
		<u>59,433</u>	<u>63,872</u>
Non-current liabilities			
Retirement benefit obligation	23	2,763	2,686
Borrowings	17	1,389,493	1,387,752
Deferred revenue	20	6,763	7,554
Derivative financial instruments	21	-	22
		<u>1,399,019</u>	<u>1,398,014</u>
Total liabilities		<u>1,458,452</u>	<u>1,461,886</u>
Equity			
Share capital	22	100,000	100,000
Retained earnings		13,897	14
Total equity		<u>113,897</u>	<u>100,014</u>
Total equity and liabilities		<u>1,572,349</u>	<u>1,561,900</u>

The notes on pages 12 to 31 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 22 February 2016. They were signed on its behalf by:



D G Stickland
Director

Company registration number: 06953114

Statement of cash flows

for the year ended 31 December 2015

	<i>Note</i>	2015 £'000	2014 £'000
Cash flow from operating activities			
Profit before tax		17,851	13,581
Adjustments for:			
- Depreciation		520	553
- Write down of inventory		207	230
- Loss on disposal of property, plant and equipment		164	-
- Loss on fair value of derivative		10	50
- Finance income		(91,132)	(87,110)
- Finance expense		86,005	80,885
- Adjustment for non-cash element of pension charge		222	118
Operating cash flow before working capital		<u>13,847</u>	<u>8,307</u>
- Increase in trade and other receivables		(8,958)	(8,637)
- Increase in trade and other payables		4,362	2,579
- Decrease in deferred revenue		(791)	(7,062)
- (Decrease)/increase in provision		(31)	1,018
Cash flow generated by/(utilised in) operating activities		<u>8,429</u>	<u>(3,795)</u>
Taxation paid		(2,661)	(781)
Net cash generated by/(utilised in) operating activities		<u>5,768</u>	<u>(4,576)</u>
Cash flow from investing activities			
Acquisition of property, plant and equipment		(460)	(438)
Amounts repaid from group entities		-	719,929
Amounts lent to group entities		-	(1,529,919)
Net cash utilised in investing activities		<u>(460)</u>	<u>(810,428)</u>
Cash flow from financing activities			
Movement in working capital loan accounts		48,470	-
Dividend paid		-	(27,300)
Loan borrowed from Eversholt Funding plc		-	1,385,000
Loan repaid to Eversholt Funding plc		(25,000)	(1,798)
Intercompany accrued interest		1,052	13,174
Intercompany loans repaid		-	(648,116)
Intercompany loans raised		-	37,752
Finance income received		91,132	87,110
Finance expense paid		(86,005)	(80,885)
Net cash generated by financing activities		<u>29,649</u>	<u>764,937</u>
Net increase/(decrease) in cash and cash equivalents		<u>34,957</u>	<u>(50,067)</u>
Cash and cash equivalents at beginning of the year		<u>10,382</u>	<u>60,449</u>
Cash and cash equivalents at end of the year	15	<u>45,339</u>	<u>10,382</u>

Statement of changes in equity
for the year ended 31 December 2015

	Share capital £'000	Retained earnings £'000	Total shareholders' equity £'000
Balance at 1 January 2014	100,000	18,968	118,968
Profit for the year	-	10,127	10,127
Dividend paid	-	(27,300)	(27,300)
Actuarial losses on defined benefit scheme after tax	-	(1,781)	(1,781)
Balance at 31 December 2014	100,000	14	100,014
Profit for the year	-	13,764	13,764
Actuarial gain on defined benefit scheme after tax	-	119	119
Balance at 31 December 2015	100,000	13,897	113,897

Dividends per share paid during the year is nil (2014: £0.27 per share).

Notes to the annual financial statements

for the year ended 31 December 2015

1 General Information

Eversholt Rail (UK) Limited (the "Company") is a company incorporated and domiciled in England and Wales. 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 2015, there were no unendorsed standards effective for the year ended 31 December 2015 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 2015 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 2015, 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 2015. 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.

- IFRS 14 Regulatory Deferral Accounts (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 Joint Arrangements (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IAS 27 Consolidated and Separate Financial Statements (2008) (mandatory for periods beginning on or after 1 January 2016).
- IFRS 15 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).
- IFRS 9 Financial Instruments (mandatory for periods beginning on or after 1 January 2018). The impact resulting from the application of this standard is currently being assessed by the Directors.
- IFRS 16 Leases (mandatory for periods beginning on or after 1 January 2019).
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (mandatory for periods beginning on or after 1 January 2017).

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

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 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 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'.

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

3 Summary of significant accounting policies (continued)

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.

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 profit or loss.

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 profit or loss.

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:

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

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.

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

3.6.6 Derivatives

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate fluctuations.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into. The gain or loss resulting from re-measurements is recognised in profit or loss immediately.

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

3 Summary of significant accounting policies (continued)

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.

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 off 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

3 Summary of significant accounting policies (continued)

3.10 Retirement benefit obligations (continued)

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.

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

	2015 £'000	2014 £'000
Bank interest	188	260
Other interest	-	1
Interest on working capital loans	<u>90,944</u>	<u>86,849</u>
	<u>91,132</u>	<u>87,110</u>

5 Finance expense

	2015 £'000	2014 £'000
Finance charge payable to Eversholt Funding plc	(83,928)	(78,557)
Fees payable	(2,063)	(2,328)
Other interest	(14)	-
	<u>(86,005)</u>	<u>(80,885)</u>

6 Administrative expense

Administrative expenses include the following:

	2015 £'000	2014 £'000
Foreign exchange loss	(116)	(5)
Depreciation - Premises & IT	(520)	(553)
- Inventory	(207)	(230)
Defined contribution pension costs	(630)	(490)
Fees payable to the company's auditor for the audit of the company's annual financial statements	(22)	(21)
Fees payable to the company's auditor and its associates for other services		
- Tax services	-	(91)
- Other services	-	(71)

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

7 Staff numbers and costs

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

	2015	2014
Directors	3	3
Operations	65	60
Administration	36	29
	<u>104</u>	<u>92</u>

The aggregate payroll costs of these persons were as follows:

	2015 £'000	2014 £'000
Wages and salaries	(11,300)	(8,905)
Social security costs	(1,356)	(1,111)
Contributions to defined contribution pension scheme	(630)	(490)
Defined benefit pension scheme service cost	(442)	(425)
	<u>(13,728)</u>	<u>(10,931)</u>

8 Directors' emoluments

	2015 £'000	2014 £'000
Directors' emoluments for services to the Company	<u>2,390</u>	<u>1,296</u>
Number of Directors who are members of a defined benefit pension scheme	<u>1</u>	<u>1</u>

The emoluments of the highest paid Director, including benefits in kind were £999,967 (2014: £494,815). The above total emoluments includes an under accrual for 2014 LTIPS. The 2015 LTIPS is also an accrual subject to ratification in 2016.

The pension contributions paid by the Company in respect of the highest paid Director for the year were £26,981 (2014: £27,003).

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 25.

9 Income tax charge

	2015 £'000	2014 £'000
Current tax		
UK Corporation tax on current year profit	(4,538)	(3,869)
Group relief for nil consideration	-	195
Adjustment in respect of prior year	169	(22)
	<u>(4,369)</u>	<u>(3,696)</u>
Deferred tax		
Origination and reversal of temporary differences	409	242
Adjustment in respect of prior year	(127)	-
	<u>282</u>	<u>242</u>
Total income tax charge	<u>(4,087)</u>	<u>(3,454)</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

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:

	2015 £'000	2014 £'000
Taxation at UK corporation tax rate of 20.25% (2014: 21.49%)	(3,615)	(2,919)
Amounts not deductible for tax purposes	(346)	(639)
Group relief for no consideration	-	195
Adjustment in respect of prior year	42	(22)
Change in tax rates	(168)	(69)
Income tax charge	(4,087)	(3,454)

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 £26,458 decrease in total comprehensive income (2014: £487,465 increase).

10 Dividends

For the year ended 31 December 2015 no dividend has been paid or declared (2014: £27,300,000).

11 Property, plant and equipment

	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost			
Balance at 1 January 2014	1,196	1,498	2,694
Additions	29	409	438
Balance at 31 December 2014	1,225	1,907	3,132
Additions	27	433	460
Disposal	-	(413)	(413)
Balance at 31 December 2015	1,252	1,927	3,179
Depreciation			
Balance at 1 January 2014	757	709	1,466
Charge for the year	244	309	553
Balance at 31 December 2014	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
Carrying value at 31 December 2015	58	831	889
Carrying value at 31 December 2014	224	889	1,113

12 Inventory

	2015 £'000	2014 £'000
Rolling stock spares	1,355	1,562

Write down in the value of inventories recognised within administrative expenses in the Income statement is an expense amounting to £206,382 (2014: £230,245).

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

13 Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	238	165
Other receivables	12	12
VAT	2,488	1,745
Overheads prepayment	464	435
Maintenance prepayment	23,603	15,490
	<u>26,805</u>	<u>17,847</u>

14 Loans receivable

	2015 £'000	2014 £'000
European Rail Finance Holdings Limited	2,385	1,845
Eversholt Finance Holdings (UK) Limited	8	7
European Rail Finance (2) Limited	44,133	-
Eversholt Rail Holdings (UK) Limited	112,050	105,932
European Rail Finance Limited	988,238	1,061,495
Eversholt Rail (380) Limited	-	154,670
Eversholt Rail (365) Limited	18,118	17,004
Eversholt Funding plc	34,951	8,873
Eversholt Investment Limited	8,134	52,977
Eversholt Depot Finance (UK) Ltd	15,998	18,410
European Rail Finance (GB) Limited	272,613	108,706
	<u>1,496,628</u>	<u>1,529,919</u>

The intragroup working capital loans with other entities is classified as non-current as it is 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 (2014: group's senior debt, plus margin).

15 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2015 £'000	2014 £'000
Interest bearing	<u>45,339</u>	<u>10,382</u>

As at 31 December 2015 all funds were held in short term bank deposit accounts and liquidity funds.

16 Trade and other payables

	2015 £'000	2014 £'000
Trade payables	7,146	1,183
Other payables	805	581
Maintenance and administrative accruals	8,066	9,891
	<u>16,017</u>	<u>11,655</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

17 Borrowings

	Current 2015 £'000	Non - current 2015 £'000	Current 2014 £'000	Non - current 2014 £'000
Eversholt Rail (380) Limited	3,438	-	-	-
European Rail Finance (2) Limited	-	-	-	1,702
Eversholt Funding plc	20,000	1,340,000	35,000	1,350,000
Eversholt Rail (365) Limited	-	49,493	-	36,050
Intercompany internal accrued interest	14,226	-	13,174	-
	<u>37,664</u>	<u>1,389,493</u>	<u>48,174</u>	<u>1,387,752</u>

The loan with Eversholt Rail (380) Limited is repayable on demand.

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 2015 was as follows:

	European Rail Finance (2) Limited 2015 £'000	European Rail Finance (2) Limited 2014 £'000	Eversholt Funding plc 2015 £'000	Eversholt Funding plc 2014 £'000
In more than two years but not more than five years	-	1,702	300,000	100,000
In more than five years	-	-	1,040,000	1,250,000
	<u>-</u>	<u>1,702</u>	<u>1,340,000</u>	<u>1,350,000</u>

18 Provisions

	2015 £'000	2014 £'000
Overheads	320	765
Engineering costs	834	420
	<u>1,154</u>	<u>1,185</u>

Provision for overheads relates to disallowable expenses for tax purposes. Provision for engineering costs relates to the cost of endemic faults to rolling stock. The projects to rectify these faults are ongoing. All provisions are expected to be utilised within 12 months.

	Overheads 2015 £'000	Engineering costs 2015 £'000	Total 2015 £'000	Total 2014 £'000
Balance at beginning of the year	765	420	1,185	167
Additions	-	509	509	1,018
Utilised	(445)	(95)	(540)	-
Balance at end of the year	<u>320</u>	<u>834</u>	<u>1,154</u>	<u>1,185</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

19 Deferred tax

	2015 £'000	2014 £'000
Non-current asset		
Balance at beginning of the year	1,077	348
Amount arising from temporary differences	450	311
Change in tax rates	(168)	(69)
Other comprehensive income: actuarial movement on retirement benefit obligations	(26)	487
Balance at end of the year	<u>1,333</u>	<u>1,077</u>

The corporation tax rate of 21% effective from 1 April 2014 reduced further by 1% to 20% for the tax year beginning 1 April 2015. Further reductions to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 18 November 2015. This reduction in the corporation tax rate from 21% to 20% results in weighted average rate of 20.25% (2014: 21.49%).

As a result of this reduction the company's future current tax charge will reduce accordingly. The deferred tax asset at 31 December 2015 has been calculated based on rates of 18% substantively enacted at the reporting date. The effect of the change in the rate to 18% was included in the financial statements. No additional change included in the year.

20 Deferred revenue

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

	2015 £'000	2014 £'000
Arising in respect of maintenance contracts	6,763	7,220
Maintenance reserve	-	334
	<u>6,763</u>	<u>7,554</u>

21 Derivative financial instruments

	2015 £'000	2014 £'000
Current		
FX forward - liabilities	<u>60</u>	<u>28</u>
Non-current		
FX forward – liabilities	<u>-</u>	<u>22</u>

The Company has entered into a foreign exchange forward contract, which enable the Company to mitigate the risk of fluctuating EUR/GBP exchange rates. The contract is not designated in hedging accounting relationship. The fair value of foreign exchange forward contract was based on market rates on 31 December 2015.

22 Share capital

	2015 £'000	2014 £'000
Authorised, allotted, called up and fully paid		
100,000,002 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

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 2015 are 19.1% (2014: 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 2015

23 Retirement benefit obligations (continued)

23.2 Membership data

	31 December 2015	31 December 2014
Active members		
Number	21	24
Number with PRP included	15	18
Annual payroll (£'000)	1,610	1,681
PRP included (£'000)	60	72
Average age	49.5	49.2
Deferred members		
Number	51	52
Total deferred pensions (£'000)	339	364
Average age	51.1	51.4
Pensioner members (including dependants)		
Number	45	40
Annual pension payroll (£'000)	1,122	1,023
Average age	64.5	64.1

23.3 Summary of assumptions

	31 December 2015 %pa	31 December 2014 % pa
Discount rate	3.60	3.60
Price inflation (RPI measure)	3.05	3.00
Increases to deferred pensions (CPI measure)	2.05	2.00
Pension increases (CPI measure)	2.05	2.00
Salary increases *	4.05	4.00

* plus 0.4% pa promotional salary scale.

	Value at 31 December 2015 £'000	Value at 31 December 2014 £'000
Growth assets	23,055	21,317
Defensive pooled fund	12,471	13,137
Other assets	169	94
	<u>35,695</u>	<u>34,548</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

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 2015	31 December 2014
Male currently age 65	Pension under £10,300 pa or pensionable pay under £35,000 pa	21.0	20.9
	Others	23.4	23.3
Male currently age 45	Pension under £10,300 pa or pensionable pay under £35,000 pa	23.3	23.2
	Others	25.7	25.5
Female currently age 65	Pension under £3,700 pa or pensionable pay under £35,000	22.8	22.7
	Others	24.6	24.5
Female currently age 45	Pension under £3,700 pa or pensionable pay under £35,000	25.2	25.1
	Others	27.0	26.8

23.4 Defined Benefit liability at end of year

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Defined Benefit liability at end of year		
Active members	9,531	9,824
Deferred members	7,518	8,014
Pensioner members (incl. dependants)	23,251	21,187
Total	<u>40,300</u>	<u>39,025</u>
Value of assets at end of year	<u>(35,695)</u>	<u>(34,548)</u>
Funded Status at end of year	4,605	4,477
Adjustment for the members' share of deficit	(1,842)	(1,791)
Effect of asset ceiling	-	-
Net Defined Benefit liability at end of the year	<u>2,763</u>	<u>2,686</u>

23.5 Reconciliation of Net Defined Benefit liability

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Opening Net Defined Benefit liability	2,686	300
Employer's share of pension expense	534	433
Employer contributions	(312)	(315)
Total (gain)/loss recognised in statement of comprehensive income	<u>(145)</u>	<u>2,268</u>
Closing Net Defined Benefit liability	<u>2,763</u>	<u>2,686</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

23 Retirement benefit obligations (continued)

23.6 Pension expense

	Year ended 31 December 2015 £'000	Year Ended 31 December 2014 £'000
Employer's share of service cost	395	335
Employer's share of administration costs	47	62
Past service cost adjustment (including curtailments)	-	28
Total employer's share of service cost	<u>442</u>	<u>425</u>
Employer's share of net interest on net defined benefit liability	92	8
Employer's share of pension expense	<u>534</u>	<u>433</u>

23.7 Other comprehensive income

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Loss due to liability experience	41	2,095
Loss due to liability assumption changes	194	1,265
Return on plan assets greater than discount rate	(380)	(1,092)
Total (gain)/loss recognised in statement of comprehensive income	<u>(145)</u>	<u>2,268</u>

23.8 Reconciliation of Defined Benefit Obligation (DBO)

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Opening Defined Benefit Obligation	39,025	32,536
Service Cost	651	548
Interest Cost on DBO	1,385	1,393
Section amendment	-	28
Loss on DBO – experience	11	3,453
Loss on DBO – demographic assumptions	-	155
Loss on DBO – financial assumptions	323	1,954
Actual benefit payments	<u>(1,095)</u>	<u>(1,042)</u>
Closing Defined Benefit Obligation	<u>40,300</u>	<u>39,025</u>

23.9 Reconciliation of value of assets

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
Opening value of Section assets	34,548	32,036
Interest income on assets	1,231	1,379
Return on plan assets greater than discount rate	634	1,820
Employer contributions	312	315
Employee contributions	143	143
Actual benefit payments	<u>(1,095)</u>	<u>(1,042)</u>
Administration costs	<u>(78)</u>	<u>(103)</u>
Closing value of Section assets	<u>35,695</u>	<u>34,548</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

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 2015	Sensitivity	Approximate change in DBO £'000
Discount rate	-1.0% p.a.	7,000
Price inflation (CPI measure)*	+0.5% p.a.	3,400
Salary increases	+0.5% p.a.	500
Life expectancy	+1 year	1,300

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

The sensitivity figures above are as at 31 December 2015 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.£312,000) are expected in the year ending 31 December 2016. 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 17 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 2015 have been received subsequent to year-end.

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

24 Risk management (continued)**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 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:

	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 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 Equivalent	45,339	45,339	45,339	-	-	-
	<u>1,568,772</u>	<u>1,568,772</u>	<u>45,339</u>	<u>26,805</u>	<u>1,496,628</u>	<u>-</u>
Financial liabilities						
Held to maturity financial instrument						
- Derivative financial instrument	60	63	-	63	-	-
Non-derivative instruments – amortised cost						
- Trade and other payables	16,017	16,017	-	16,017	-	-
- Borrowings	52,931	52,931	-	-	52,931	-
- Intercompany term lending	1,374,226	2,228,603	-	100,123	630,213	1,498,267
	<u>1,443,234</u>	<u>2,297,614</u>	<u>-</u>	<u>116,203</u>	<u>683,144</u>	<u>1,498,267</u>
Total financial instruments	<u>125,538</u>	<u>(728,842)</u>	<u>45,339</u>	<u>(89,398)</u>	<u>813,484</u>	<u>(1,498,267)</u>

	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 2014						
Financial assets						
Loans and receivables						
- Loans receivable	1,529,919	1,529,919	-	-	1,529,919	-
- Trade and other receivables	17,847	17,847	-	17,847	-	-
Cash and cash equivalent	10,382	10,382	10,382	-	-	-
	<u>1,558,148</u>	<u>1,558,148</u>	<u>10,382</u>	<u>17,847</u>	<u>1,529,919</u>	<u>-</u>
Financial liabilities						
Held to maturity financial instrument						
- Derivative financial instrument	50	54	-	27	27	-
Non-derivative instruments – amortised cost						
- Trade and other payables	11,655	11,655	-	11,655	-	-
- Borrowings	37,752	37,752	36,050	-	1,702	-
- Intercompany term lending	1,398,174	2,263,128	-	112,046	411,812	1,739,270
	<u>1,447,631</u>	<u>2,312,589</u>	<u>36,050</u>	<u>123,728</u>	<u>413,541</u>	<u>1,739,270</u>
Total financial instruments	<u>110,517</u>	<u>(754,441)</u>	<u>(25,668)</u>	<u>(105,881)</u>	<u>1,116,378</u>	<u>(1,739,270)</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

24 Risk management (continued)

Liquidity risk management (continued)

Intercompany term lending includes fixed rate term loans with a carrying value of £1,100m and a fair value estimated to be £1,351m. 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 2015 and 31 December 2014.

Market risk management

The Company is not directly exposed to foreign exchange risk on its financial assets or financial liabilities.

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 risk management

The Company is exposed to interest rate risk because it borrows and deposits funds at fixed and floating interest rates. The cash flow risk is managed by the Company to maintain an appropriate mix between fixed and floating rate borrowings through the use of interest rate swaps.

Interest rate sensitivity analysis

The impact of a 50 basis points increase in LIBOR would have resulted in a decrease of £635,167 in intercompany term lending interest expense, a decrease in working capital interest income of £686,899 and an increase in cash deposit interest received of £222,533. The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument.

25 Related-party transactions

25.1 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. It was previously Eversholt Investment Group (Luxembourg) sarl. The parent undertaking of the largest 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 European Rail Finance (2) Limited. The result of the Company is 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 2015

25 Related-party transactions (continued)

25.2 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:

	2015 £'000	2014 £'000
European Rail Finance (GB) Limited	2,128	2,085
European Rail Finance Limited	14,192	12,206
Eversholt Rail (380) Limited	1,080	982
Eversholt Rail (365) Limited	888	676
Eversholt Depot Finance (UK) Limited	146	135

Loan accounts are more fully described in notes 14 and 17. Interest receivable/(payable) on these loan accounts is as follows:

	2015 £'000	2014 £'000
Eversholt Funding plc	800	(34)
Eversholt Rail Holding (UK) Limited	6,790	7,276
Eversholt Rail Depot Finance Limited	1,082	961
Eversholt Rail (380) Limited	9,453	9,671
Eversholt Rail Finance (GB) Limited	7,899	4,115
European Rail Finance Limited	60,517	61,356
European Rail Finance Holdings Limited	153	(474)
Eversholt Investment Limited	3,155	2,805
Eversholt Rail Finance (2) Limited	7	1,146
Eversholt Rail (365) Limited	1,088	26

Dividends paid are fully described in note 10.

The Company has paid £15,000 to Eversholt Funding plc for funding services (2014: £15,000).

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

	MB Kenny
Preferred Equity Certificates	
Certificates held at 31 December 2013	365,626
Certificates redeemed	(44,058)
Certificates held at 31 December 2014	321,568
Certificates redeemed	(321,568)
Certificates held at 31 December 2015	-
Ordinary shares held	
Shares held at 31 December 2013 and 2014	901
Shares redeemed	(901)
Shares held at 31 December 2015	-

26 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2015 (2014: nil).

27 Subsequent events

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