Eversholt Depot Finance Limited

Annual report and financial statements
for the year ended 31 December 2018

Registered No: 05229765

Eversholt Depot Finance Limited

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for the year ended 31 December 2018

Contents

Strategic report
for the year ended 31 December 2018

Business review

Eversholt Depot Finance Limited (the "Company"), earns both operating and finance lease income from leasing rolling stock depots. The Company forms part of the Eversholt UK Rails Group (the "Group") more fully described in note 22.

In 2017 the Group underwent a reorganisation which included the transfer on 31 May 2017 of the ownership of the Company's shares from Eversholt Rail Holdings (UK) Limited to Eversholt Rail Leasing Limited. The purpose of the reorganisation was to simplify the corporate structure of the Group.

In the year the Company generated a profit of £952,000 (2017: £859,000). As at 31 December 2018 the Company had net assets of £9,480,000 (2017: £8,528,000).

Another group undertaking, Eversholt Rail Limited, provides asset management and administrative services to the Company, charging an annual management fee.

The business is funded principally by borrowing from another group undertaking and equity from its immediate parent. The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group. The risks relevant to the Company, together with an analysis of the exposure to such risks, are set out in note 19 of the financial statements.

Financial performance

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

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

Business environment

The Directors monitor the business environment in which the Company operates from a group perspective and details of relevant matters, including Brexit and climate change, are disclosed in the financial statements of Eversholt UK Rails Limited.

Approved by the Board and signed on its behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London, N1 9JY
United Kingdom

15 February 2019

Directors' report
for the year ended 31 December 2018

The Directors present their Annual report together with the audited financial statements for the year ended 31 December 2018.

Directors

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

M B Kenny
A J Course
A J Wesson

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

Future developments

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017: £nil).

Going concern basis

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

Disclosure of information to the auditor

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

Auditor

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

Approved by the Board and signed on its behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

15 February 2019

Statement of Directors' responsibilities
for the year ended 31 December 2018

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 or loss 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 15 February 2019 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 Depot Finance Limited
for the year ended 31 December 2018

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Company:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ("IASB"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company which comprise:

- the Income statement;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of cash flows;
- the Statement of changes in equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

for the year ended 31 December 2018

Other information (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

for the year ended 31 December 2018

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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

Makhan Chahal

Makhan Chahal ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

15th February 2019

Income statement
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue			
Operating lease income	*21*	**2,366**	2,363
Finance lease income	*11*	**518**	635
Total revenue		**2,884**	2,998
Cost of sales	*5*	**(962)**	(963)
Gross profit		**1,922**	2,035
Finance expense	*6*	**(595)**	(738)
Administrative expense	7	**(166)**	(143)
Profit before tax		**1,161**	1,154
Income tax charge	9	**(209)**	(295)
Profit for the year		**952**	859

There were no discontinued or discontinuing operations during the year.

The notes on pages 12 to 25 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2018

There has been no comprehensive income or expense other than the profit for the year as shown above (2017: £nil).

Statement of financial position
as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	*10*	**16,359**	17,321
Finance lease receivables	*11*	**5,415**	6,333
		21,774	23,654
Current assets			
Finance lease receivables	*11*	**918**	865
Trade and other receivables	*12*	**33**	54
Cash and cash equivalents	*13*	**-**	138
		951	1,057
Total assets		**22,725**	24,711
Liabilities and equity			
Current liabilities			
Trade and other payables	*14*	**233**	226
Current tax		**1,163**	1,174
		1,396	1,400
Non-current liabilities			
Borrowings	*15*	**8,139**	10,717
Deferred tax	*17*	**3,710**	4,066
		11,849	14,783
Total liabilities		**13,245**	16,183
Equity			
Share capital	*18*	**5,000**	5,000
Retained earnings		**4,480**	3,528
Total equity		**9,480**	8,528
Total equity and liabilities		**22,725**	24,711

The notes on pages 12 to 25 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 15 February 2019. They were signed on its behalf by

A J Wesson
Director

Company registration number 05229765

Statement of cash flows
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Profit before tax		**1,161**	1,154
Adjustments for:			
- Depreciation charge	5	**962**	963
- Finance expense	6	**595**	738
Operating cash flow before changes in working capital		**2,718**	2,855
Decrease in finance lease receivables		**865**	1,001
Decrease in trade and other receivables		**21**	11
Increase/(decrease) in trade and other payables		**7**	(15)
Cash flow generated by operating activities		**3,611**	3,852
Payment in respect of group relief		**(576)**	-
Net cash flow generated by operating activities		**3,035**	3,852
Cash flow from financing activities			
Movement in intercompany loan with Eversholt Rail Limited	16	**(3,173)**	(3,714)
Net cash utilised in financing activities		**(3,173)**	(3,714)
Net movement in cash and cash equivalents		**(138)**	138
Cash and cash equivalents at the beginning of the year		**138**	-
Cash and cash equivalents at the end of the year	13	**-**	138

Statement of changes in equity
for the year ended 31 December 2018

	Note	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	*18*	5,000	2,669	7,669
Total comprehensive income		-	859	859
Balance at 31 December 2017		5,000	3,528	8,528
Total comprehensive income		-	952	952
Balance at 31 December 2018		**5,000**	**4,480**	**9,480**

Dividends per share paid during the year is £nil (2017: £nil per share).

Notes to the annual financial statements
for the year ended 31 December 2018

1 General Information

Eversholt Depot Finance Limited is a private company incorporated in England and Wales and is limited by shares (see note 18). The registered office of the Company is 210 Pentonville Road, London, N1 9JY, United Kingdom.

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 IFRSs

The financial statements of the Company have been prepared on the historical cost basis. These financial statements have been prepared in accordance with IFRSs as issued by the 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 2018, there were no unendorsed standards effective for the year ended 31 December 2018 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 2018 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 no material effect on the financial statements (note 4).

At 31 December 2018, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2018. The following adopted IFRSs have been issued but have not been applied by the Company in these financial statements. They are applicable for periods beginning on or after 1 January 2019 and are not anticipated to have a material impact, except for IFRS 16, as disclosed in this note.

- Amendments to IFRS 9 – Prepayment features with negative compensation
- IFRIC 23 Uncertainty over Income Tax Treatments
- IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. It will supersede the current lease guidance including IAS 17 Leases and the related Interpretations. The date of initial application of IFRS 16 for the Company will be 1 January 2019.

The Company has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Company will not restate the comparative information.

The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has the right to:

- obtain substantially all economic benefits from the use of an identified asset; and
- direct the use of that asset.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

2 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

The Company will apply IFRS 16's lease definition to all lease contracts entered into or modified on or after 1 January 2019.

Impact on Lessee Accounting

Operating leases:
IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, the Company will:

a) Recognise right-of-use assets and lease liabilities in the Statement of financial position;

b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the Income statement; and

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of cash flows.

As at 31 December 2018, the Company has non-cancellable operating lease commitments of £2,977,877 and a preliminary assessment indicates that the Company will recognise a related right-of-use asset of £2,046,380 and a corresponding lease liability of £2,589,040. The impact on the Income statement is to increase operating lease income, and to increase depreciation/interest expense by similar amounts.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities and to increase net cash used in financing activities by the same amount.

Finance leases:
IFRS 16 is not expected to impact the accounting for leases currently presented as finance leases.

Impact on Lessor Accounting:
Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and will account for each differently. IFRS 16 does not change the accounting treatment of leases for lessors. However, IFRS 16 has expanded the disclosures required.

2.3 Going concern

The Company's forecasts and projections taking account of reasonably possible changes in trading performance show that the Company, having commitment of support from the Group, 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, except where noted in relation to standards implemented for the first time in 2018.

3.1 Finance and operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Income and expense from operating leases is recognised on a straight-line basis over the lease term.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

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 rate 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 periods.

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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

3.3 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 year, calculated using tax rates enacted or substantively enacted by the end of the reporting year and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

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

Deferred tax is calculated using the tax rates expected to apply in the year 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 year.

3.4 Property, plant and equipment

In the normal course of business, property, plant and equipment are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. Useful economic lives range from 23 to 35 years. Useful economic lives and carrying values are reviewed at least annually.

The depreciation charge is included in the Income statement as detailed in note 5.

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 and is recognised in the Income statement.

At each reporting date, the Company reviews the carrying value of the depot assets to determine whether there is any indication that the assets have suffered an impairment loss. In addition, the Company will review the various contractual break options which limit the Company's residual value exposure. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.4 Property, plant and equipment (continued)

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.

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 impairment 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.

3.5 Financial instruments

This policy reflects the introduction of IFRS 9 financial instruments in 2018 (see note 4).

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.

Classification and measurement

Financial assets are classified and measured by reference to the business model in which assets are managed and their cash flow characteristics.

The Company holds the following classes of financial instruments:

Loans and receivables

These comprise Trade and other receivables that are held in order to collect the related contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest. 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.

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.

Cash and cash equivalents

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

Financial liabilities

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.5 Financial instruments

Impairment of financial assets

Where required, allowance for lifetime expected credit loss ("ECL") is recognised for Loans and receivables which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component, as well as finance lease receivables. Finance lease receivables are outside of scope of IFRS 9 for classification and measurement.

Where required, 12 month ECL allowance is carried for other financial assets carried at amortised cost where the credit risk has not increased significantly since the initial recognition. Where credit risk has increased significantly, lifetime ECL allowance will be carried.

Financial assets for which there is objective evidence of impairment, are considered to be in default or otherwise credit-impaired for disclosure purposes.

Financial assets (and the related impairment allowances) are written off, either partially or in full, when there is no realistic prospect of recovery. The amounts written off reflect the proceeds from realisation of any collateral underpinning the asset.

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.

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.

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

3.6 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 balances 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.

3.7 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 year in which they are declared.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

3 Summary of significant accounting policies (continued)

3.8 Use of judgements, estimates and assumptions

In the application of the Company's accounting policies, management 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.

There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation. There are no sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 Implementation of new IFRS Standards

IFRS 9 – Financial Instruments

IFRS 9 "Financial Instruments" is effective for the accounting periods beginning on or after 1 January 2018 and supersedes IAS 39 "Financial Instruments: recognition and measurement". The adoption of IFRS 9 has not had impact on the carrying value of financial assets or financial liabilities reported as at 31 December 2017.

The Company has no hedge accounting relationships in place and therefore the hedge accounting requirements of IFRS 9 are not applicable.

The principal effects resulting from the application of IFRS 9 on the Company's assets or liabilities are summarised below:

Classification and measurement
IFRS 9 introduces a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, and new requirements on the accounting for financial liabilities that are designated at fair value through profit or loss. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

In practice the adoption of IFRS 9 has not had an impact on the Company's accounting policies related to financial liabilities or financial assets. The Company's financial assets and liabilities in the scope of IFRS 9, continue to be measured at amortised cost.

The only financial assets in the scope of IFRS 9 are the Company's "Trade and other receivables" and "Cash and cash equivalents." The Company's Finance lease receivables are only subject to the impairment requirement of IFRS 9.

Impairment
IFRS 9 "Financial Instruments" Impairment of financial assets - IFRS 9 replaces the "incurred loss" impairment model in IAS 39 with a forward-looking ECL model. In principle, credit losses will therefore be recognised earlier than under IAS 39 and may be subject to more frequent revision. The ECL model applies to the Company's "Trade and other receivables", "Cash and cash equivalents" and "Finance lease receivables."

Disclosure
Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures. The new disclosure requirements have been applied to the current year information but have not been generally applied to comparative information as permitted by the standard.

5 Cost of sales

	2018 £'000	2017 £'000
Depreciation	(962)	(963)

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

6 Finance expense

	2018 £'000	2017 £'000
Interest payable to Eversholt Rail Limited	**(595)**	(732)
Finance charges payable to Eversholt Funding plc	**-**	(6)
	(595)	(738)

Interest payable represents interest charged in relation to the financial liabilities carried at amortised cost.

7 Administrative expense

Administrative expense includes the following:

	2018 £'000	2017 £'000
Management fees paid	**(148)**	(136)
Management fees refunded	**-**	10
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**(18)**	(17)

The Company has no employees and hence no staff costs (2017: nil).

8 Directors' emoluments

The Directors have been paid by another group undertaking, Eversholt Rail Limited. No specific charge has been made to the Company in this regard.

9 Income tax charge

	Note	2018 £'000	2017 £'000
Current tax			
UK corporation tax on current year profit		**(565)**	(598)
Deferred tax			
Origination and reversal of temporary differences	*17*	**338**	368
Change in tax rate	*17*	**18**	(65)
Total deferred tax		**356**	303
Total income tax charge		**(209)**	(295)

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

The deferred tax at 31 December 2018 has been calculated based on the rate of 17% substantively enacted at the reporting date. The effect of the change in the rate to 17% is included in the financial statements.

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

	2018 £'000	2017 £'000
Profit before tax	**1,161**	1,154
Taxation at corporation tax rate of 19% (2017: 19.25%)	**(220)**	(222)
Change in tax rates	**18**	(65)
Permanent tax effect – depreciation of assets ineligible for tax allowances	**(7)**	(8)
Income tax charge	**(209)**	(295)

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

10 Property, plant and equipment

	Rail Depot £'000
Cost	
Balance at 1 January 2017	25,145
Additions	-
Balance at 31 December 2017	**25,145**
Additions	-
Balance at 31 December 2018	**25,145**
Depreciation	
Balance at 1 January 2017	6,861
Charge for the year	963
Balance at 31 December 2017	**7,824**
Charge for the year	**962**
Balance at 31 December 2018	**8,786**
Carrying value at 31 December 2018	**16,359**
Carrying value at 31 December 2017	17,321

11 Finance lease receivables

	2018 £'000	2017 £'000
Gross investment in finance leases		
Amounts falling due:		
No later than one year	**1,381**	1,403
Later than one year and no later than five years	**5,525**	5,525
Later than five years	**922**	2,301
Gross investment in finance leases	**7,828**	9,229
Unearned finance income	**(1,495)**	(2,031)
Net investment in finance leases less provisions	**6,333**	7,198
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	**918**	865
Later than one year and no later than five years	**4,515**	4,168
Later than five years	**900**	2,165
Present value of minimum lease receivables	**6,333**	7,198
Fair value of amounts receivable under finance leases	**6,333**	7,198
Aggregate finance lease rentals receivable in the year	**865**	1,001

The Company has entered into a finance leasing arrangement for one of the depots. This lease is due to expire in 6 years' time. Finance lease receivable balances are secured over the depot.

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates. The fair values are not considered to be significantly different from the carrying value.

The interest rate inherent in the lease are fixed at the contract date for all of the lease terms. The average effective interest rate contracted approximates between 6% and 10% (2017: 6% and 10%) per annum.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

12 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	33	54

13 Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents	-	138

14 Trade and other payables

	2018 £'000	2017 £'000
Rentals received in advance	157	157
Accruals	13	9
Other payables	63	60
	233	226

15 Borrowings

	2018 £'000	2017 £'000
Eversholt Rail Limited	8,139	10,717

The intercompany loan with Eversholt Rail Limited is classified as non-current as it is repayable on 4 November 2023. 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 (2017: Group's senior debt, plus margin).

All assets have been pledged to secure borrowings of the Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted in the use of disposal proceeds. The assets are secured by a fixed and floating charge held by the financial institutions that have lent to Eversholt Funding plc.

16 Reconciliation of liabilities arising from financing activities

Financing activities attributable to:	As at 31 December 2017 £'000	Non-cash finance expense £'000	Cash Flows payments £'000	As at 31 December 2018 £'000
Liabilities				
Eversholt Rail Limited	10,717	595	(3,173)	8,139

17 Deferred tax liability

Deferred tax arises on timing differences in respect of capital allowances.

	2018 £'000	2017 £'000
Balance at 1 January	4,066	4,369
Credit to the Income statement	(338)	(368)
Effect of change in tax rate		
- Income statement	(18)	65
Balance at 31 December	3,710	4,066

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

18 Share capital

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid		
5,000,100 Ordinary shares of £1 each	**5,000**	5,000

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

19 Risk management

The Company is exposed to residual value risk and credit risk from its leasing arrangements. The Company also has exposure to the following types of risk arising from its use of financial instruments: capital risk, market risk, and liquidity risk. Market risk includes foreign exchange risk and interest rate risk.

Sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 3.8.

The management of all risks which are significant together with the quantitative disclosures not already included elsewhere in the financial statements are described in this note.

Residual value risk

One of the key drivers of the Company's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values recoverable from re-letting assets at the end of the current lease terms (the "residual values") differ from those projected at the inception of the leases. The Company regularly monitors the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let the depot at the end of their current lease terms. The leasing arrangements in place for the depot also have various contractual provisions which limit the Company's residual value exposure. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

There has been no change to the Company's exposure to residual value risks or the manner in which these risks are managed and measured.

Capital risk management

The Board actively monitors the capital structure of the Company to ensure that it is able to continue as a going concern and can generate attractive and predictable returns for shareholders and benefits for other stakeholders. Consideration is given to the availability, cost and risks associated with each class of capital.

The Capital structure of the Company consists of borrowings from another group undertaking and equity from its immediate parent.

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

Credit risk management

Credit risk is the risk of financial loss if a counterparty fails to meet its obligations under a contract. The Company's principal credit exposure arises from the ability of its counterparties to service their obligations under the leasing arrangements. It arises principally from lease receivables.

The Company monitors the exposure to counterparties in relation to finance lease receivables, trade and other receivables, cash and cash equivalents on a regular basis. This includes considering the borrower's ability to service its obligations to the Company and other creditors, having regards to past, current and future circumstances.

The financial assets are performing in accordance with the terms of the contractual arrangements i.e. all payments to date as well as those expected in the future, have been made/are expected to be made in accordance with the underlying contractual terms. No part of the financial asset is credit impaired or overdue, or in default. For these purposes, the Company defines "default" as where the obligor has failed to meet its obligations under the contract and "credit impaired" where there is objective evidence as to a credit event for the obligor.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

19 Risk management (continued)

Credit risk management (continued)

The carrying value of the financial assets represents the Company's maximum credit exposure to the borrower.

In light of the above, the Company has determined that no ECL allowance is required in relation to its trade receivables or cash and cash equivalents or finance lease receivables. This reflects the Company's assessment of the borrower's risk and exposure, together with nature of recourse to which the lender and borrower would have access in the event of a potential issue.

Market risk management

The Company is not exposed to foreign exchange risk on its financial assets and financial liabilities

The Company has exposure to fluctuations in interest rates. This exposure is managed at a group level through the use of interest rate swaps. The net cost or benefit derived from the use of swaps is taken into account in determining the interest on the intercompany loan.

Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in intercompany loan interest expense of £9,483. The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. Cash is managed on a consolidated basis across the Group which enables the Company to borrow funds from another group undertaking to meet any shortfall. Conversely, the Company lends any surplus funds to other group undertakings. Liquidity is further under-pinned by the ability of certain group undertakings to borrow under a £600m revolving credit facility which matures on 4 November 2023 and lend proceeds to the Company.

Undiscounted cash flows in respect of the intercompany loan with Eversholt Rail Limited include the principal amount of intercompany loans only, due to the uncertainty of intercompany movements and of interest estimation. Interest on intercompany loans is settled as part of intercompany cash movements.

Undiscounted cash flows receivable from financial assets and payable to meet financial liabilities are analysed below by their contractual due date:

31 December 2018	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
Financial assets						
Loans and receivables						
- Finance lease receivables	6,333	7,828	-	1,381	5,525	922
- Trade and other receivables	33	33	-	33	-	-
- Cash and cash equivalents	-	-	-	-	-	-
	6,366	7,861	-	1,414	5,525	922
Financial liabilities						
- Trade and other payables	233	233	-	233	-	-
- Borrowings	8,139	8,139	-	-	8,139	-
	8,372	8,372	-	233	8,139	-
Total financial instruments	(2,006)	(511)	-	1,181	(2,614)	922

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

19 Risk management (continued)

Liquidity risk management (continued)

31 December 2017	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
Financial assets						
Loans and receivables						
- Finance lease receivables	7,198	9,229	-	1,403	5,524	2,302
- Trade and other receivables	54	54	-	54	-	-
- Cash and cash equivalents	138	138	138	-	-	-
	7,390	9,421	138	1,457	5,524	2,302
Financial liabilities						
- Trade and other payables	226	226	-	226	-	-
- Borrowings	10,717	10,717	-	-	10,717	-
	10,943	10,943	-	226	10,717	-
Total financial instruments	(3,553)	(1,522)	138	1,231	(5,193)	2,302

20 Fair value of financial assets and liabilities

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2018 and 31 December 2017.

21 Operating lease arrangements

The Company as lessor:

The Company has an operating lease in relation to one of its depots. At the reporting date, the outstanding commitments for future minimum lease receipts under the operating lease is as follows:

	2018 £'000	2017 £'000
No later than one year	**2,634**	2,634
Later than one year and no later than five years	**10,536**	10,536
Later than five years	**3,214**	6,045
	16,384	19,215
Aggregate operating lease rentals receivable in the year	**2,366**	2,363

The Company as lessee:

The Company has outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land as follows:

	2018 £'000	2017 £'000
Within one year	**268**	268
2-5 years	**1,073**	1,073
Over 5 years	**1,637**	1,905
	2,978	3,246

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

21 Operating lease arrangements (continued)

In relation to these arrangements, the following receipts/payments arise:

	2018 £'000	2017 £'000
Minimum lease payments under operating leases recognised as an expense in the year	**(268)**	(268)
Sub-lease receipts	**268**	268
	-	-

For the purpose of presentation in the Income statement, the sublease rentals are recorded net of rentals payable.

Outstanding commitments for future minimum lease receipts under the subleases, are equivalent to the Company's commitments as lessee of land as set out above.

22 Related-party transactions

22.1 Identity of related parties

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

- Eversholt UK Rails Limited
- Eversholt UK Rails (Holding) Limited
- European Rail Finance Holdings Limited
- European Rail Finance Limited
- Eversholt Investment Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Finance Holdings Limited
- Eversholt Funding plc
- Eversholt Rail Limited
- Eversholt Rail (365) Limited
- Eversholt Rail Leasing Limited
- European Rail Finance (2) Limited

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

Copies of the Group financial statements of CK Hutchison Holdings Limited may be obtained from the following address (the registered office of the ultimate parent undertaking):

PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

22.2 Transactions with related parties

The Company has loans with related parties, described in note 15. Interest on these loans is described in note 6.

The Company paid management fees of £147,671 to Eversholt Rail Limited (2017: £136,429). In 2017 the Company received a refund of £10,000 from Eversholt Investment Limited.

Notes to the annual financial statements (continued)
for the year ended 31 December 2018

23 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2018 (2017: nil).

24 Subsequent events

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