

Eversholt Funding plc

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

Registered No: 07329930

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

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Strategic report

for the year ended 31 December 2018

Business review

Eversholt Funding plc (the "Company") forms part of the Eversholt UK Rails Group (the "Group") more fully described in note 22. The Company was established for the sole purpose of raising debt finance for the group companies bound by the terms of the Financing Documents dated 4 November 2010 (the "Security Group").

In the year the Company generated a profit of £11,429,000 (2017: £11,658,000). As at 31 December 2018 the Company had net liabilities of £128,370,000 (2017: £143,684,000). As described in note 2.3, the Directors are satisfied that the Company, through the support of the Group, has the resources to continue in business for the foreseeable future.

On 21 April 2017 the Company, as planned, drew down the final £100,000,000 on its 2016 US Private Placement. The Company also raised new finance of £400,000,000 through a public bond issue. The funds were drawn on 7 August 2017 at a fixed interest rate of 3.529% and a final maturity of 2042 (25 year bond amortising from 2034). The new financing pre-funded committed capital expenditure relating to the acquisition of new rolling stock. No additional funding was required in 2018.

The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group. An analysis of the exposure to such risks is set out in note 19 of the financial statements.

The Company's future viability and risk management are ultimately dependent on the performance of the Group and its ability to generate cash flows from its rolling stock and other rail assets. The principal risks and uncertainties of the Group are disclosed in the accounts of Eversholt UK Rails Limited.

The other principal business risks for the Company are market, capital, liquidity and credit risk. The market risk arises from refinancing risk and exposure to interest rate fluctuations on the value of and cash flows attributable to borrowings and deposits. Refinancing risk is managed by established procedures for monitoring concentration of maturities and early negotiation of financing arrangements. The interest rate cash flow risk is managed by means of interest rate swaps which have fixed the rate of interest payable on floating rate debt.

Capital risk arises from the ability of the Company to continue as a going concern and generate attractive and predictable returns for shareholders and benefits for other stakeholders. The Board actively monitors the capital structure of the Company.

Liquidity risk arises from the Company's obligations to make interest and principal repayments on its debt and derivative contracts. The day to day cash flow requirements of the Company are closely monitored.

Credit risk arises from placing cash deposits, arranging committed undrawn borrowings and entering into derivative contracts with third parties. Credit risk is managed in line with established procedures which consider credit quality of counterparties and concentration of risk.

Financial performance

The Company's results for the financial year are detailed in the Income statement on page 13.

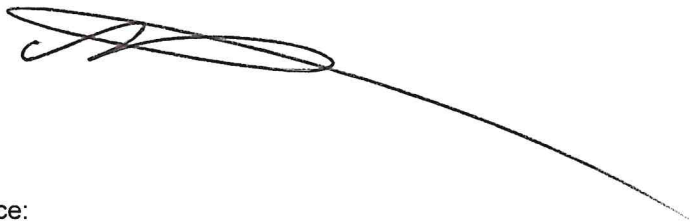
The Group manages its operations on a consolidated basis, therefore the Company's directors believe that further specific performance measures for the Company are not necessary or appropriate for an understanding of its performance. Performance measures for the Group are disclosed in the accounts of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

Strategic report (continued)
for the year ended 31 December 2018

Approved by the Board and signed on its behalf:

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

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
LDC Securitisation Director No. 3 Limited

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

Future developments

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

Dividends

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 Annual 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 Funding plc
for the year ended 31 December 2018

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Eversholt Funding plc (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 are the IFRSs as adopted by the European Union and IFRSs as issued by IASB.


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 Financial Reporting Council's (the "FRC's") Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matter	The key audit matters that we identified in the current year was the accuracy of reflecting the novation of swap contracts during the year within derivative financial instruments. Within this report, any new key audit matters are identified with  .
Materiality	The materiality that we used in the current year was £2.6m which was determined on the basis of 2% of equity.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes to our audit approach this year.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2018

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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accuracy of reflecting the novation of swap contracts during the year within derivative financial instruments

Key audit matter description



At 31 December 2018, the Company has derivative financial assets of £2 million (2017: £6 million) and derivative financial liabilities of £128 million (2017: £151 million). In particular, the Company has entered into a number of highly effective interest rate swap contracts to hedge the cash flow risk inherent in its forecast future interest payments. These contracts qualify for hedge accounting and at 31 December 2018, their fair value liability totalled £20 million (2017: £24 million).

In accordance with IFRS 9 "Financial instruments: recognition and measurement", these financial instruments are accounted for at fair value through Other Comprehensive Income or Profit and Loss as appropriate. In determining the fair value of these instruments, management have used contractual cash flows attached to the instrument and an independently sourced yield curve for the reporting date. Qualification for hedge accounting also requires the documentation for these instruments to meet specific conditions.

During the year a number of swap contracts were subject to novations which resulted in changes to swap counterparties. The novation of the swap contracts requires complex judgements and it is also a particularly technical area of accounting. In comparison to prior year, no embedded derivative key audit matter has been identified on the basis that no new debt was contracted during the year.

Further details including the use of assumptions and estimates are disclosed in note 3. Derivative financial instruments including the disclosure of recycling of cash reserves is included note 13.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2018

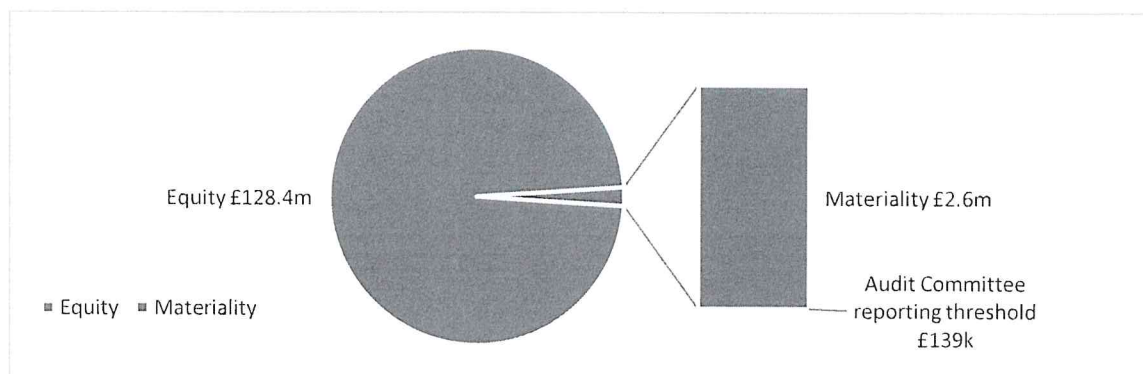
How the scope of our audit responded to the key audit matter	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> assessed the policies, processes and controls in place in respect of derivative financial instruments; engaged our financial instruments specialists to assess whether all contracts qualifying as derivative financial instruments (including embedded derivatives) had been identified, assessed and valued appropriately; assessed the hedge documentation against the requirement of IFRS 9; performed a review of effectiveness testing to evaluate whether this met the criteria established under IFRS 9; based on the results of the effectiveness testing, critically evaluated whether the novation of swap contracts during the year within derivative financial instruments was accounted for appropriately under IFRS 9; performed independent valuations of the derivative financial instruments; and critically reviewed the disclosures in the statutory accounts for compliance with IFRS 9.
Key observations	<p>We found that the cash flow hedge relationships were accurately accounted for and the hedging documentation inspected supported the effectiveness of the hedges. The valuations and disclosure of derivative financial instruments were appropriate.</p>

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£2.6m (2017: £2.8m)
Basis for determining materiality	2% of equity (2017: 2% of equity)
Rationale for the benchmark applied	We believe equity is the most appropriate benchmark as it is considered to be one of the principal considerations for members of the Company in assessing its financial performance.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £139,000 (2017: £140,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2018

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. We performed a risk assessment which factors in the size, composition and qualitative factors relating to all account balances, classes of transactions and disclosures. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report including Strategic report, Directors' report and Statement of Directors' responsibilities, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

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.

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.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities, 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.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2018

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax and valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area: accuracy of reflecting the novation of swap contracts during the year within derivative financial instruments; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the accuracy of recycling cash flow hedge reserve transactions within derivative financial instruments as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2018

-
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
 - reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
 - in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Independent Auditor's report to the Members of Eversholt Funding plc (continued)
for the year ended 31 December 2018

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 19 February 2016 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 December 2015 to 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

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 ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP,
Statutory Auditor
London
United Kingdom

15H February 2019

Income statement

for the year ended 31 December 2018

	<i>Note</i>	2018 £'000	2017 £'000
Revenue			
Fee income	5.1	1,113	979
Finance income	5.2	114,228	105,077
Total revenue		115,341	106,056
Finance expense	6	(116,143)	(107,824)
Net fair value gain on derivative financial instruments	13	14,933	15,888
Gross profit		14,131	14,120
Administrative expense	7	(390)	(118)
Profit before tax		13,741	14,002
Income tax charge	9	(2,312)	(2,344)
Profit for the year		11,429	11,658

There were no discontinued or discontinuing operations during the year.

The notes on pages 17 to 33 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2018

	<i>Note</i>	2018 £'000	2017 £'000
Profit for the year		11,429	11,658
Other comprehensive income/(expense)			
Effective portion of changes in fair value of cash flow hedges	13	3,788	(1,873)
Realised gain on cash flow hedges to property, plant and equipment	13	893	769
Tax (charge)/credit on changes in effective portion of changes in fair value of cash flow hedges	11	(796)	188
		3,885	(916)
Total comprehensive income for the year		15,314	10,742

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

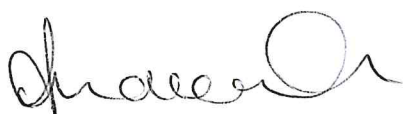
Statement of financial position

as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Deferred tax	11	23,687	27,021
Derivative financial instruments	13	1,779	6,294
Amounts owed by group undertakings	12	1,940,000	1,940,000
		<u>1,965,466</u>	<u>1,973,315</u>
Current assets			
Amounts owed by group undertakings	12	21,266	21,151
Current tax		535	-
Cash and cash equivalents	14	645	501
Trade and other receivables		-	67
		<u>22,446</u>	<u>21,719</u>
Total assets		<u>1,987,912</u>	<u>1,995,034</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	15	47	233
Current tax		-	1,607
Borrowings	16	20,620	20,534
		<u>20,667</u>	<u>22,374</u>
Non-current liabilities			
Borrowings	16	1,934,979	1,934,714
Amounts owed to group undertakings	12	32,401	30,159
Derivative financial instruments	13	128,235	151,471
		<u>2,095,615</u>	<u>2,116,344</u>
Total liabilities		<u>2,116,282</u>	<u>2,138,718</u>
Equity			
Share capital	18	50	50
Accumulated deficit		(107,059)	(118,488)
Hedging reserve	13	(21,361)	(25,246)
Total equity		<u>(128,370)</u>	<u>(143,684)</u>
Total equity and liabilities		<u>1,987,912</u>	<u>1,995,034</u>

The notes on pages 17 to 33 form an integral part of these financial statements.

The 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: 07329930

Statement of cash flows

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Profit before tax		13,741	14,002
Adjustments for:			
- Finance expense	6	116,143	107,824
- Finance income	5.2	(114,228)	(105,077)
- Amortisation of capitalised finance charges	16	370	6,818
- Capitalisation of finance charges	16	(134)	(1,847)
- Fair value adjustment on derivative financial instruments	13	(14,933)	(15,888)
Operating cash flow before changes in working capital		959	5,832
Decrease/(Increase) in trade and other receivables		67	(67)
Decrease in trade and other payables	15	(186)	(293)
Cash generated by operating activities		840	5,472
Payment in respect of group relief		(1,916)	-
Net cash (utilised in)/generated by operating activities		(1,076)	5,472
Cash flow from investing activities			
Amounts borrowed by group entities		-	(450,000)
Net cash utilised in investing activities		-	(450,000)
Cash flow from financing activities			
Movement in intercompany loan with Eversholt Rail Limited	17	324	(6,793)
Settlements on derivative financial instruments	13	893	769
External borrowings repaid		-	(50,000)
External borrowing raised		-	500,000
Interest paid on bonds	17	(98,375)	(88,352)
Interest paid on bank loans		-	(147)
Interest paid on swaps	17	(15,735)	(16,316)
Interest received on loan to Eversholt Rail Limited	17	114,113	105,060
Bank interest received		-	17
Net cash generated by financing activities		1,220	444,238
Net movement in cash and equivalents		144	(290)
Cash and cash equivalents at beginning of the year		501	791
Cash and cash equivalents at end of the year	14	645	501

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

	<i>Note</i>	Share capital £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2017	18	50	(24,330)	(130,146)	(154,426)
Profit for the year		-	-	11,658	11,658
Effective portion of changes in fair value of cash flow hedges	13	-	(1,873)	-	(1,873)
Realised gain on cash flow hedge released to property, plant and equipment	13	-	769	-	769
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	11	-	188	-	188
Total comprehensive (expense)/income		-	(916)	11,658	10,742
Balance at 31 December 2017		50	(25,246)	(118,488)	(143,684)
Profit for the year		-	-	11,429	11,429
Effective portion of changes in fair value of cash flow hedges	13	-	3,788	-	3,788
Realised gain on cash flow hedge released to property, plant and equipment	13	-	893	-	893
Tax charge on changes in effective portion of changes in fair value of cash flow hedges	11	-	(796)	-	(796)
Total comprehensive income		-	3,885	11,429	15,314
Balance at 31 December 2018		50	(21,361)	(107,059)	(128,370)

Notes to the annual financial statements

for the year ended 31 December 2018

1. General Information

Eversholt Funding plc 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 Eversholt Funding plc have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. These financial statements have been prepared in accordance with 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 and endorsed by the EU

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 on the financial statements.

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

2.3 Going concern

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The financial statements have been assessed in conjunction with the Group as its viability is dependent upon the ability of group companies to provide funds for the Company when required. As a result and having made appropriate enquiries, reviewed forecasts and having the commitment of support from the parent, the Directors consider it reasonable to assume that the Company has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

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 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.

3.2 Fees and other income

Income is recognised on satisfaction of the performance obligation in relation to the service required by the customer and when control of that service is passed to the customer. Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Finance income'.

3.3 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 years 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 years 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 year. Deferred tax assets and liabilities are offset if, and only if:

- (a) there is a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income tax levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities that intended to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

3.4 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 of amounts from other group companies and 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 a three months' maturity from the date of acquisition and include cash.

Financial liabilities

Financial liabilities are classified as either financial liabilities at 'fair value through profit and loss' or 'other' financial liabilities.

Other than derivative 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.

Impairment of financial assets

Where required, allowance for lifetime expected credit losses ("ECL") is recognised for Trade and other receivables which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component.

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

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.

Derivatives and hedge accounting

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

Derivative financial instruments are recognised at fair value. Where derivatives do not qualify for hedge accounting the gain or loss on remeasurement to fair value is recognised immediately in the Income statement.

However, where derivatives qualify for hedge accounting, the Company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income, which is accounted for in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income statement.

When the hedging relationship ends the hedging gain or loss recognised in other comprehensive income is reclassified to the Income statement when the hedged item is recognised in the Income statement. When the hedged item relates to a capital expenditure transaction and the hedging relationship ends, the hedging gain or loss recognised in other comprehensive income is amortised to Property, plant and equipment over the life of the hedged item. If the hedging instrument is terminated, related amounts remain in the hedging reserve provided that the hedge future cashflows are still expected to occur.

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

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.

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).

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

Determination of fair value (continued)

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. Transfers between levels of the fair value hierarchy are recognised at the end of the reporting year during which the change occurred.

3.5 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 'Cash flow from operating activities', movements in intercompany balances are shown under the heading of 'Cash flow from financing activities'. Such movements arise from the financing of the Security Group for which the Company is the finance provider.

3.6 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.

3.7 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. Implementations 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 Company has applied the transition provisions set out in IFRS 9 to adjust the retained profits as at 1 January 2018 without restating comparative information retrospectively. It has achieved this by applying the classification and measurement requirements (including impairment) to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The Company has also applied the hedge accounting requirements of IFRS 9 prospectively with effect from 1 January 2018

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 for 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

4. Implementations of new IFRS Standards (continued)

IFRS 9 – Financial Instruments (continued)

Classification and measurement (continued)

In practice, the adoption of IFRS 9 has not had any effect on the Company's accounting policies related to financial liabilities, derivative financial instruments and hedge accounting.

In addition, IFRS 9 has no material impact upon the classification and measurement of the Company's financial assets. These include amounts owed by group undertakings and cash and cash equivalents, together with trade and other receivables. They will continue to be carried at amortised cost, as under IAS 39. Likewise, there is no impact upon the company's non derivative financial liabilities.

Derivatives continue to be carried at fair value through profit and loss, except where they are part of a cash flow hedge accounting relationship where the change in fair value is recognised in other comprehensive income to the extent that the hedge is effective.

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 be subject to frequent revision. The new impairment model applies to financial assets measured at amortised cost.

The Company applies the simplified approach to recognise lifetime ECL for Trade and other receivables. Otherwise 12 month ECL is carried for other financial assets carried at amortised cost unless the credit has significantly deteriorated since initial recognition of the financial asset.

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.

Hedge accounting

The Company has elected to use the more principles-based approach to hedge accounting introduced by IFRS 9. IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy. Derivatives that qualified as hedging instruments at 31 December 2017 continue to qualify as cash flow hedges under IFRS 9 and no material adjustment is necessary to carrying values.

IFRS 15 – Revenue from contracts with customers

IFRS 15 is effective for the accounting periods beginning on or after 1 January 2018 and establishes a single comprehensive model for accounting for revenue arising from contracts with customers which are recognised when a performance obligation is satisfied. It replaces existing revenue recognition guidance, including IAS 18 "Revenue".

IFRS 15 has no impact upon the measurement or recognition of the Company's assets or liabilities, or revenue recognition.

5. Revenue

5.1 Fee income

	2018 £'000	2017 £'000
Expenses recharged to Eversholt Rail Limited	390	134
Funding services fees charged to Eversholt Rail Limited	15	-
Transaction fees charged to Eversholt Rail Leasing Limited	708	845
	<u>1,113</u>	<u>979</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

5. Revenue (continued)**5.2 Finance income**

	2018 £'000	2017 £'000
Interest received from Eversholt Rail Limited	114,228	105,060
Bank interest	-	17
	<u>114,228</u>	<u>105,077</u>

Finance income represents interest received on loan receivables carried at amortised cost and bank interest on cash and cash equivalents carried at amortised cost.

6. Finance expense

	2018 £'000	2017 £'000
Interest payable on bank loans	-	(119)
Interest payable on derivative financial instruments	(15,834)	(16,161)
Interest payable on bonds	(98,391)	(88,774)
Fees payable	-	(75)
Interest payable to Eversholt Rail Limited	(1,918)	(2,695)
	<u>(116,143)</u>	<u>(107,824)</u>

Finance expenses represent interest charged in relation to financial liabilities carried at amortised cost except for interest payable on derivatives which will be carried at fair value through profit and loss (except where there is a hedge relationship – see note 3.4 Derivatives and hedge accounting).

7. Administrative expense

	2018 £'000	2017 £'000
Administrative expense includes the following:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(61)	(50)

The Company has no employees and hence no staff costs.

8. Directors' emoluments**Non-executive directors**

	2018 £'000	2017 £'000
Directors' fees	<u>(23)</u>	<u>(22)</u>

The charge for three of the Directors' services has been borne by another group company, Eversholt Rail Limited. The fees, above, represent the charge for LDC Securitisation Director No. 3 Limited's corporate director services and have been borne by the Company and are included in administrative expense.

9. Income tax charge

	Note	2018 £'000	2017 £'000
Current tax			
UK Corporation tax on current year profit		226	309
Deferred tax			
Origination and reversal of temporary differences	11	(2,837)	(3,004)
Change in tax rates	11	299	351
Income tax charge		<u>(2,312)</u>	<u>(2,344)</u>

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

9. Income tax charge (continued)

The deferred tax asset as 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 and losses had been taxed at the UK corporation tax rate:

	2018 £'000	2017 £'000
Profit before tax	13,741	14,002
Taxation at corporation tax rate of 19% (2017: 19.25%)	(2,611)	(2,695)
Change in tax rates	299	351
Income tax charge	(2,312)	(2,344)

10. Dividends

For the year ended 31 December 2018 no dividend has been paid or declared (2017: £nil).

11. Deferred tax asset

Deferred tax assets and liabilities are offset where the relevant criteria are met (see note 3.3). Deferred tax arises on timing differences created by unrealised changes in the fair value of derivative financial instruments.

	2018 £'000	2017 £'000
Balance at 1 January	27,021	29,486
Charge to Income statement	(2,837)	(3,004)
(Charge)/credit to other comprehensive income	(796)	188
Effect of change in tax rate:		
- Income statement	299	351
Balance at 31 December	23,687	27,021

12. Amounts owed by/to group undertakings

	2018 £'000	2017 £'000
Current assets		
Intercompany accrued interest	21,266	21,151
	<u>21,266</u>	<u>21,151</u>
Non-current assets		
Eversholt Rail Limited	1,940,000	1,940,000
	<u>1,961,266</u>	<u>1,961,151</u>

The terms of this loan mirror the terms of the Company's external debt described in note 16.

	2018 £'000	2017 £'000
Non-current liabilities		
Eversholt Rail Limited – intercompany loan	32,401	30,159

The intercompany loan with Eversholt Rail Limited is classified as non-current as it is repayable on or before 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).

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

13. Derivative financial instruments

31 December 2018	Notional Amount	Fair Value Amount	Change in fair value used for calculating hedge ineffectiveness
	£'000	£'000	£'000
Non-current assets			
Interest rate swap contracts	<u>46,000</u>	<u>1,779</u>	<u>-</u>
Non-current liabilities			
Interest rate swap contracts	724,895	(107,923)	-
Interest rate swap contracts – hedge accounted	<u>300,000</u>	<u>(20,312)</u>	<u>3,602</u>
	<u>1,024,895</u>	<u>(128,235)</u>	<u>3,602</u>
Total derivative financial instruments	<u>1,070,895</u>	<u>(126,456)</u>	<u>3,602</u>
31 December 2017	Notional Amount	Fair Value Amount	Change in fair value used for calculating hedge ineffectiveness
	£'000	£'000	£'000
Non-current assets			
Interest rate swap contracts	<u>165,296</u>	<u>6,294</u>	<u>-</u>
Non-current liabilities			
Interest rate swap contracts	429,296	(127,557)	-
Interest rate swap contracts – hedge accounted	<u>300,000</u>	<u>(23,914)</u>	<u>(8,570)</u>
	<u>729,296</u>	<u>(151,471)</u>	<u>(8,570)</u>
Total derivative financial instruments	<u>894,592</u>	<u>(145,177)</u>	<u>(8,570)</u>

The fair value of derivative financial instruments is based on market rates on 31 December 2018.

In 2017 the Company entered into two new swap contracts to manage its overall hedging ratio. These swaps are not designated in hedge accounting relationships.

No new Interest rate swaps were entered into in 2018. The increase in notional principal in 2018 reflects contracted notional profiles associated with swaps entered into for the pre-funding of new build rolling stock capital expenditure.

As at 31 December 2018, the company's hedge accounted swaps were deemed to be highly effective and the fair value liability associated to these interest rate swaps was £20,312,399 (31 December 2017: £23,914,501).

In relation to interest rate swaps that are part of hedge accounting relationships there was an ineffective loss of £185,625 (2017: £83,669). This can be attributed to differences between actual and expected funding profiles.

All of the hedging instruments are expected to mature in more than 5 years.

The change in the fair value of the hedged item used as a basis of recognising hedge ineffectiveness is a loss of £3,788,000; (2017: £2,750,000 gain).

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

13. Derivative financial instruments (continued)

Amounts affecting the statement of comprehensive income and financial position, are as follows:

Movement of fair value in Derivative financial instruments

	Not hedge accounted £'000	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2018	(121,263)	(23,914)	-	(145,177)
Unrealised gain/(loss) through the income statement				
- Ineffective	-	(186)	-	(186)
- Other	15,119	-	-	15,119
	<u>15,119</u>	<u>(186)</u>	<u>-</u>	<u>14,933</u>
Unrealised (loss)/gain through Other comprehensive income	-	3,788	-	3,788
Balance as at 31 December 2018	(106,144)	(20,312)	-	(126,456)
Balance as at 1 January 2017	(143,848)	(21,080)	5,736	(159,192)
Unrealised gain/(loss) through the income statement				
- Ineffective	-	(84)	-	(84)
- Other	15,687	-	-	15,687
	<u>15,687</u>	<u>(84)</u>	<u>-</u>	<u>15,603</u>
Realised gain through the Income statement				
- Effective	-	-	285	285
	<u>-</u>	<u>-</u>	<u>285</u>	<u>285</u>
Unrealised (loss)/gain through Other comprehensive income	-	(2,750)	877	(1,873)
Consideration paid on termination	-	-	(6,898)	(6,898)
Impact of repricing for consideration of swap terminated	6,898	-	-	6,898
Balance as at 31 December 2017	(121,263)	(23,914)	-	(145,177)

Movement in Hedging reserve

	Not hedge accounted £'000	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2018	-	19,562	5,684	25,246
Unrealised gain through other comprehensive income	-	(3,788)	-	(3,788)
Release to property, plant & equipment	-	-	(893)	(893)
Income tax on other comprehensive income	-	644	152	796
Balance as at 31 December 2018	-	16,418	4,943	21,361
Balance as at 1 January 2017		17,280	7,050	24,330
Unrealised loss/(gain) through other comprehensive income	-	2,750	(877)	1,873
Release to property, plant & equipment	-	-	(769)	(769)
Income tax on other comprehensive income	-	(468)	280	(188)
Balance as at 31 December 2017	-	19,562	5,684	25,246

In 2017 three derivative interest rate contracts were terminated for a consideration of £6,898,000. The consideration was used to reprice other interest rate swaps.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

13. Derivative financial instruments (continued)

Cumulative unrealised losses of £5,500,207 relating to Interest rate swaps terminated in prior years remain in the hedging reserve and will be recognised in the Income statement in future years.

At 31 December 2018 the Company held interest rate swaps with a fair value of £106,143,690 liability (2017: £121,263,000 liability) which were not designated in hedging relationships for accounting purposes.

Certain bond agreements include contractual obligations to settle cross-currency derivative financial instruments, that the lender has entered into pursuant to the bonds, in the event that the Group either defaults on or repays the bonds before maturity. The embedded derivatives resulting from such arrangements have been valued at £nil (2017: £nil) on the basis that the Group is not in default and is not forecast to be in default or repay bonds early.

14. Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2018 £'000	2017 £'000
Bank balances	<u>645</u>	<u>501</u>

£500,000 of cash and cash equivalents is restricted cash in line with the terms of an agreement with the security trustee for the Company's secured creditors.

15. Trade and other payables

	2018 £'000	2017 £'000
Fees and other payables accrued	<u>47</u>	<u>233</u>

16. Borrowings

	2018 £'000	2017 £'000
Current		
Interest accrued	21,266	21,151
Transaction costs	<u>(646)</u>	<u>(617)</u>
	<u>20,620</u>	<u>20,534</u>
Non-current		
Bonds	1,940,000	1,940,000
Transaction costs	<u>(5,021)</u>	<u>(5,286)</u>
	<u>1,934,979</u>	<u>1,934,714</u>
	<u>1,955,599</u>	<u>1,955,248</u>

Bond principal amount

	Interest rate Semi-annual coupon	Due date
£300m	5.831%	2020
£400m	6.359%	2025
£400m	6.697%	2021-2035
£100m	LIBOR+margin	2028-2036
£90m	Fixed rate	2030
£50m	Fixed rate	2028-2036
£100m	Fixed rate	2026-2031
£100m	Fixed rate	2037
£400m	3.529%	2034-2042

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

16. Borrowings (continued)

None of the bonds is puttable.

The Security Group finances itself using a Common Documents platform. This means that all covenants on the performance and management of the Security Group apply to all Senior lenders. Failure to comply with these may result in Bank loans and Bonds being repayable on demand. The Security Group was in compliance with the covenants during 2018.

The Security group has granted a fixed and floating charge over all of its assets to secure this financing.

Fees incurred on raising finance have been capitalised and are being amortised using the 'effective interest method' over the term of the borrowings.

Maturity of borrowings

The maturity profile of the carrying amount of the Company's non-current borrowings at 31 December 2018 was as follows:

	2018 £'000	2017 £'000
In more than one year but not more than two years	300,000	-
In more than two years but not more than five years	71,429	342,857
In more than five years	1,568,571	1,597,143
	<u>1,940,000</u>	<u>1,940,000</u>

17. Reconciliation of assets & liabilities arising on financing activities

	As at 31 December 2017 £'000	Non-cash finance (income)/ expense £'000	Cash Flows receipts/ (payments) £'000	As at 31 December 2018 £'000
Financing activities attributable to:				
Liabilities				
Eversholt Rail Limited	30,159	1,918	324	32,401
Bond interest accrued	20,411	98,391	(98,375)	20,427
Swap Interest accrued	740	15,834	(15,735)	839
	<u>51,310</u>	<u>116,143</u>	<u>(113,786)</u>	<u>53,667</u>
Assets				
Eversholt Rail Limited	<u>(21,151)</u>	<u>(114,228)</u>	<u>114,113</u>	<u>(21,266)</u>

18. Share capital

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	<u>50</u>	<u>50</u>

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

19. Risk management

The Company has exposure to the following types of risk arising from its use of financial instruments: capital risk, credit risk, liquidity risk and market 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 3.7.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

19. Risk management (continued)

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.

19.1 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 comprises principally of borrowings from Senior lenders and equity from its immediate parent.

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

19.2 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 lending arrangements and derivative contracts.

The Company monitors the exposure to other group undertakings, cash and cash equivalents balances and trade and other receivables 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 arrangement 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.

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 amounts owed by group undertakings, or cash and cash equivalents, nor trade and other 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.

19.3 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 the Company to borrow under a £600m revolving credit facility which matures on 4 November 2023.

Undiscounted cash flows in respect of the intercompany loan from 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

19. Risk management (continued)**19.3 Liquidity risk management (continued)**

Undiscounted cash flows on the Company assets and liabilities are analysed below by their contractual due date, including estimated interest cash flows where appropriate:

31 December 2018	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within year £'000	1 Due between 1-5 years £'000	Due after 5 years £'000
Financial assets						
Instruments						
- Derivative financial instruments	1,779	8,284	-	2,083	4,369	1,832
Loans and receivables						
- Intercompany term loans	1,961,266	2,550,086	-	97,040	345,838	2,107,208
Cash and cash equivalents	645	645	145	-	-	500
Trade and other receivables	-	-	-	-	-	-
Total Financial assets	1,963,690	2,559,015	145	99,123	350,207	2,109,540
Financial liabilities						
Instruments						
- Derivative financial instruments	128,235	144,452	-	16,932	59,317	68,203
Borrowings and payables						
- Borrowings	1,961,266	2,550,086	-	97,040	345,838	2,107,208
- Intercompany loans	32,401	32,401	-	-	32,401	-
- Trade and other payables	47	47	-	47	-	-
Total Financial liabilities	2,121,949	2,726,986	-	114,019	437,556	2,175,411
Total Financial Instruments	(158,259)	(167,971)	145	(14,896)	(87,349)	(65,871)
31 December 2017	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within year £'000	1 Due between 1-5 years £'000	Due after 5 years £'000
Financial assets						
Instruments						
- Derivative financial instruments	6,294	7,691	-	1,766	5,925	-
Loans and receivables						
- Intercompany term loans	1,961,151	2,779,458	-	98,908	610,279	2,070,271
Cash and cash equivalents	501	501	1	-	-	500
Trade and other receivables	67	67	-	67	-	-
Total Financial assets	1,968,013	2,787,717	1	100,741	616,204	2,070,771
Financial liabilities						
Instruments						
- Derivative financial instruments	151,471	81,798	-	16,978	64,820	-
Borrowings and payables						
- Borrowings	1,961,151	2,779,458	-	98,908	610,279	2,070,271
- Intercompany loans	30,159	30,159	-	-	30,159	-
- Trade and other payables	233	233	-	233	-	-
Total Financial liabilities	2,143,014	2,891,648	-	116,119	705,258	2,070,271
Total Financial Instruments	(175,001)	(103,931)	1	(15,378)	(89,054)	500

Cash and cash equivalents (due after 5 years) of £500,000 (2017: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

19. Risk management (continued)**19.4 Market risk management****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.

	2018 £'000	2017 £'000
Financial liabilities – Fixed Rate	(1,840,000)	(1,840,000)
Financial liabilities – Fixed by interest rate hedging	(100,000)	(100,000)
Financial liabilities – intercompany loan	(32,401)	(30,159)
	<hr/>	<hr/>
Financial assets – Fixed Rate	1,840,000	1,840,000
Financial assets – Fixed by interest rate hedging	100,000	100,000
	<hr/>	<hr/>

Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £820,000 offset by an increase of £820,000 in intercompany term lending interest receipt, an increase in intercompany interest expense of £30,727 and an increase in cash deposit interest received of £2,561.

A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in fair value liability and a net fair value loss of £632,280 on derivative financial instruments.

Foreign exchange risk

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

Approach to Hedging

Consistent with prior years, the Company uses interest rate swaps to manage its interest rate risk.

The Group borrows funds that carry a floating rate of interest. In addition, the Company seeks to fix the interest rate payable on future borrowings required to fund committed future capital expenditure. Interest rate swaps are used to manage interest rates exposure by swapping variable for fixed payments of interest on a notional amount of funding. Swaps are established in relation to specific funding.

Interest rate swaps are designated as part of hedging relationships upon their inception. The Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in cash flows arising from the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as resulting from the principal of the hedge item, actually hedged, and the principal of the hedging instrument.

Once established, hedging arrangements will generally continue to the maturity of related borrowings. As such, there is little, if any, need to reset hedging relationships. In general, it is expected that any hedge ineffectiveness will be minimal given the basis upon which hedging is established.

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

20. Financial Instruments

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

31 December 2018	Note	Carrying amount £'000	Level 1 £'000	Fair value Level 2 £'000	Level 3 £'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	13	1,779	-	1,779	-
Loans and receivables					
- Intercompany loan receivables	12	1,500,000	-	1,688,189	-
- Intercompany loan receivables (fixed)	12	340,000	-	343,153	-
- Intercompany loan receivables (other)	12	121,266			
Cash and cash equivalents	14	645			
Trade and other receivables					
Total Financial assets		<u>1,963,690</u>			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	13	128,235	-	128,235	-
Non-derivative instruments – amortised cost					
- Publicly traded bonds	16	1,500,000	1,688,189	-	-
- Fixed rate borrowings	16	340,000	-	343,153	-
- Other borrowings	16	121,266			
- Intercompany loan	12	32,401			
Trade and other payables	15	47			
Total Financial liabilities		<u>2,121,949</u>			
Total Financial instruments		<u>(158,259)</u>			

31 December 2017	Note	Carrying amount £'000	Level 1 £'000	Fair value Level 2 £'000	Level 3 £'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	13	6,294	-	6,294	-
Loans and receivables					
- Intercompany loan receivables	12	1,500,000	-	1,790,147	-
- Intercompany loan receivables (fixed)	12	340,000		364,439	
- Intercompany loan receivables (other)	12	121,151			
Cash and cash equivalents	14	501			
Trade and other receivables		67			
Total Financial assets		<u>1,968,013</u>			
Financial liabilities					
Fair value through profit or loss					
- Derivative financial instruments	13	151,471	-	151,471	-
Non-derivative instruments – amortised cost					
- Publicly traded bonds	16	1,500,000	1,790,147	-	-
- Fixed rate borrowings	16	340,000	-	364,439	-
- Other borrowings	16	121,151			
- Intercompany loan	12	30,159			
Trade and other payables	15	233			
Total Financial liabilities		<u>2,143,014</u>			
Total Financial instruments		<u>(175,001)</u>			

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

21. Fair value of financial assets and liabilities

There are no other material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2018 (2017: £nil).

22. Related-party transactions

22.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 4) and with its fellow group undertakings of 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 Rail Leasing Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Investment Limited
- Eversholt Finance Holdings Limited
- Eversholt Rail Limited
- Eversholt Depot Finance
- Eversholt Rail (365) Limited
- European Rail Finance (2) Limited

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited, incorporated in 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 Finance Holdings Limited. The results of the Company are included in the Group financial statements of CK Hutchison Holdings Limited.

Copies of the Group financial statements 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 loan accounts with fellow subsidiaries described in note 12 and note 16. Interest on these accounts is described in notes 5.2 and 6.

Payments made to directors are described in note 8.

The Company charged funding service fee to Eversholt Rail Limited of £15,000 (2017: £15,000). In addition, the Company recharged expenses to Eversholt Rail Limited of £390,095 (2017: £118,548)

The Company charged transaction fees to Eversholt Rail Leasing Limited of £708,000 (2017: £845,400).

In 2017 the Company received a refund of management fees from Eversholt Investment Ltd of £10,000.

The Company transferred borrowing related transaction costs of £917,757 (2017: £7,647,000) to Eversholt Rail Leasing Limited, £nil (2017: £6,000) to Eversholt Depot Finance Limited and £nil (2017: £48,787) to Eversholt Rail Holdings (UK) Limited.

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 these financial statements.