Eversholt Rail Leasing Limited

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

Registered No: 02720809

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

Contents

Strategic report
for the year ended 31 December 2018

Business review

Eversholt Rail Leasing Limited (the "Company") generates income from the leasing of rolling stock and other assets to train and freight operating companies in the UK. The Company forms part of the Eversholt UK Rails Group ("Group") more fully described in note 28.

In the year the Company generated a profit of £27,206,000 (2017: £64,212,000). As at 31 December 2018 the Company had net assets of £92,498,000 (2017: £79,588,000). During the year the Company incurred capital expenditure of £261,441,000 (2017: £248,556,000) in relation to its programme of new build rolling stock and investments in upgrades to existing fleets.

During 2017 the Group underwent a reorganisation which included the acquisition by the Company on 31 May 2017 of Eversholt Depot Finance Limited, Eversholt Rail (365) Limited and Eversholt Rail Limited for consideration of £114,974,151 from Eversholt Rail Holdings (UK) Limited. The purpose of the reorganisation was to simplify the corporate structure of the Group.

During the year, the Company started to accept new rolling stock fleets, ordered in 2015 and 2016, from manufacturers: 118 C802 bi-mode vehicles had been accepted by the end of the year and are now in service and on lease to Great Western Railway. In addition, the Company accepted six C195 regional diesel vehicles for running on the Northern Network.

Eversholt Rail Limited, a subsidiary company, provides asset management and administrative services to the Company, charging an annual management fee.

The business continues to be funded principally by loans from a group undertaking, Eversholt Rail Limited.

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 24 of the financial statements.

The Company's return from operating leases is dependent upon its management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the lease terms (the residual values) differ from those projected at the inception of the leases. The Company regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let at the end of their current lease terms. Provision is made to the extent that the carrying values of leased assets exceed the recoverable value.

The Group has developed a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis. The asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Company and the Group has an excellent knowledge of the current condition of its fleets.

The fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, the Group works proactively with train operators to identify opportunities to improve the performance of its fleets. The Group maintains constant dialogue with the train operators on fleet performance so that any emerging issues can be dealt with quickly.

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

Financial performance

The Company's results for the financial year are detailed in the Income statement on page 10.

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.

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:

W Barnes	(resigned on 6 February 2018)
L S Chan	(resigned on 6 February 2018)
A J Course	
A Haines	(resigned on 6 February 2018)
A J Hunter	(resigned on 6 February 2018)
H L Kam	(resigned on 6 February 2018)
M B Kenny	
K L Ludeman	(resigned on 6 February 2018)
D Macrae	(resigned on 6 February 2018)
A J Wesson	

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

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.

Future developments

The Company expects to continue accepting the new rolling stock fleets, described on page 2, from manufacturers. All the new vehicles are expected to have been accepted, and to have entered into operational service, by 2020.

During 2018 the Group undertook a significant amount of bidding and marketing activity in support of the Wales and Borders ("W&B"), South Eastern, East Midlands and West Coast Partnership franchise competitions. Other than W&B, the outcome of these competitions will not be known until later in 2019.

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

Dividends

On 8 October 2018 the Directors declared and paid a dividend of £10,000,000 (2017: £100,000,000).

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.

Directors' report (continued)
for the year ended 31 December 2018

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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit 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 United Kingdom 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 Rail Leasing 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 30.

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 Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

Independent Auditor's Report to the Members of Eversholt Rail Leasing 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 Rail Leasing 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	*5*	**379,956**	373,582
Other income	*5*	**2,160**	-
Dividend income	*11*	**-**	20,000
Total revenue		**382,116**	393,582
Cost of sales	*6*	**(232,232)**	(210,790)
Gross profit		**149,884**	182,792
Finance expense	*7*	**(97,238)**	(92,837)
Net fair value gain/(loss) on derivative financial instruments	*16*	**134**	(20)
Administrative expense	*8*	**(19,714)**	(18,472)
Loss on disposal of Property, plant and equipment		**(6)**	-
Profit before tax		**33,060**	71,463
Income tax charge	*10*	**(5,854)**	(7,251)
Profit for the year		**27,206**	64,212

There were no discontinued or discontinuing operations during the year.

The notes on pages 14 to 35 form an integral part of these financial statements

Statement of comprehensive income
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit for the year		**27,206**	64,212
Other comprehensive (expense)/income			
Effective portion of changes in fair value of cash flow hedges	*16*	**(6,523)**	7,512
Realised loss/(gain) on cash flow hedges to property, plant and equipment	*16*	**1,347**	(473)
Tax credit/(charge) on changes in effective portion of changes in fair value of cash flow hedges	*16, 21*	**880**	(1,197)
		(4,296)	5,842
Total comprehensive income for the year		**22,910**	70,054

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			
Property, plant and equipment	*12*	**2,400,233**	2,307,489
Investments in subsidiaries	*15*	**149,319**	149,322
Derivative financial instruments	*16*	**21,519**	27,908
		2,571,071	2,484,719
Current assets			
Trade and other receivables	*14*	**2,029**	10,996
Current tax		**15,312**	17,828
Cash and cash equivalents	*13*	**50,371**	4,995
		67,712	33,819
Total assets		**2,638,783**	2,518,538
Liabilities and equity			
Current liabilities			
Trade and other payables	*17*	**36,837**	32,438
Other liabilities	*18*	**4,485**	3,142
Borrowings	*19*	**57,039**	54,588
		98,361	90,168
Non-current liabilities			
Other liabilities	*18*	**116,323**	122,361
Borrowings	*19*	**2,252,767**	2,151,594
Deferred tax	*21*	**78,834**	74,827
		2,447,924	2,348,782
Total liabilities		**2,546,285**	2,438,950
Equity			
Share capital	*22*	**50,000**	50,000
Hedging reserve	*16*	**22,059**	26,355
Retained earnings		**20,439**	3,233
Total equity		**92,498**	79,588
Total equity and liabilities		**2,638,783**	2,518,538

The notes on pages 14 to 35 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 02720809

Statement of cash flows
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Profit before tax		**33,060**	71,463
Adjustments for:			
- Depreciation charge	*6*	**168,686**	130,265
- Loss on disposal of property, plant and equipment		**6**	-
- Dividend income	*11*	**-**	(20,000)
- Finance expense	*7*	**97,238**	92,837
- Reduction of investment in subsidiary	*15*	**3**	-
- (Gain)/loss on fair value of derivative financial	*16*	**(134)**	20
Operating cash flow before changes in working capital		**298,859**	274,585
Decrease/(increase) in trade and other receivables		**8,967**	(9,336)
(Decrease)/increase in other liabilities		**(4,695)**	10,413
Increase/(decrease) in trade and other payables		**4,399**	(4,495)
Cash flow generated by operating activities		**307,530**	271,167
Receipt in respect to group relief		**1,549**	-
Net cash generated by operating activities		**309,079**	271,167
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(259,997)**	(249,029)
Proceeds from disposal of property, plant and equipment		**5**	-
Dividends received	*11*	**-**	20,000
Acquisition of subsidiaries	*15*	**-**	(114,974)
Net cash utilised in investing activities		**(259,992)**	(344,003)
Cash flow from financing activities			
Loan repaid from Eversholt Rail Limited	*20*	**(118,760)**	(118,760)
Finance expense paid		**(3,398)**	(9,709)
Movement in intercompany loan with Eversholt Rail Limited	*20*	**128,447**	306,214
Dividends paid	*11*	**(10,000)**	(100,000)
Other interest		**-**	86
Net cash (utilised in)/generated by financing activities		**(3,711)**	77,831
Net movement in cash and cash equivalents		**45,376**	4,995
Cash and cash equivalents at beginning of the year		**4,995**	-
Cash and cash equivalents at end of the year	*13*	**50,371**	4,995

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

	Note	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	*16,22*	**50,000**	**20,513**	**39,021**	**109,534**
Profit for the year		-	-	64,212	64,212
Effective portion of changes in fair value of cash flow hedges	*16*	-	7,512	-	7,512
Realised gain on cash flow hedges	*16*	-	(473)	-	(473)
Income tax on other comprehensive income	*16,21*	-	(1,197)	-	(1,197)
Total comprehensive income		-	**5,842**	**64,212**	**70,054**
Dividend paid	*11*	-	-	(100,000)	(100,000)
Balance at 31 December 2017		**50,000**	**26,355**	**3,233**	**79,588**
Profit for the year		**-**	**-**	**27,206**	**27,206**
Effective portion of changes in fair value of cash flow hedges	*16*	**-**	**(6,523)**	**-**	**(6,523)**
Realised loss on cash flow hedges	*16*	**-**	**1,347**	**-**	**1,347**
Income tax on other comprehensive income	*16,21*	**-**	**880**	**-**	**880**
Total comprehensive income		**-**	**(4,296)**	**27,206**	**22,910**
Dividend paid	*11*	**-**	**-**	**(10,000)**	**(10,000)**
Balance at 31 December 2018		**50,000**	**22,059**	**20,439**	**92,498**

Dividends per share paid during the year is £0.20 (2017: £2.00) per share.

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

1 General Information

Eversholt Rail Leasing Limited is a private company incorporated in England and Wales and is limited by shares (see note 22). 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.

The Company is exempt from the requirement to prepare consolidated financial statements by Section 401 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

2.1 Compliance with IFRSs

The financial statements of Eversholt Rail Leasing Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. These financial statements have been prepared in accordance with 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.

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

2.2 Standards and Interpretations issued by the IASB

During the year, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements. Details of the new standards implemented in the year can be found in 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.

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 – Prepayment features with negative compensation
- 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 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. It is anticipated that the change will have little, if any, impact.

Impact on Lessee Accounting:
The Company does not currently lease assets under operating or finance leases and therefore the IFRS 16 requirements are not applicable.

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

A lease is an arrangement whereby the lessor conveys to the lessee the right to use an asset for an agreed period in return for a payment or series of payments.

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.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of financial position as finance lease obligations.

Lease payments in respect of assets acquired under finance leases are apportioned between finance expenses charged to the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability over the period of the lease. Contingent rentals are recognised as expenses in the year in which they are incurred.

Finance charges in respect of assets acquired under finance leases are charged to the Income statement over the year of the lease so as to give a constant periodic rate of finance cost. The capital element of the obligation to make future payments is included in liabilities.

Operating lease income and expense is recognised on a straight-line basis over the lease term.

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'.

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

3 Summary of significant accounting policies (continued)

3.3 Finance income and expense

Finance expense for all interest bearing financial instruments is recognised in '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.

3.4 Income tax

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

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

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

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

3.5 Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting year. Any resulting exchange differences are included in the Income statement.

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

3 Summary of significant accounting policies (continued)

3.5 Foreign currencies (continued)

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

3.6 Property, plant and equipment

In the normal course of business, rolling stock and other railway assets are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. The useful economic life depends on the class of vehicle and type of asset and ranges from 20 to 40 years. Useful economic lives and carrying values are reviewed at least annually.

In relation to the construction of rolling stock and other railway assets:

i) Progress payments paid to third parties are capitalised.

ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the construction of rolling stock and other railway assets and accrue in respect of the year of construction.

iii) Assets in the course of construction are not depreciated until they are available for use.

The depreciation charge is included in the Income statement as detailed in note 6.

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 its rolling stock and railway assets to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

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

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

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

3.7 Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. The Company's investments in subsidiaries are stated at cost being the fair value at acquisition date less any impairment losses. Any impairment loss recognised in prior years shall be reversed through the Income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount of the investment in the subsidiary since the last impairment loss was recognised.

3.8 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.

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

3 Summary of significant accounting policies (continued)

3.8 Financial instruments

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 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 receivables which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component; and
- Lease receivables, which are outside the scope of IFRS 9 for classification and measurement purposes but in the scope for impairment.

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.

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Derivatives and hedge accounting

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

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

When the hedging relationship ends the hedging gain or loss recognised in Other comprehensive income is reclassified to the Income statement when the hedged item is recognised in the Income statement.

When the hedged item relates to a capital expenditure transaction and the hedging relationship ends, the hedging gain or loss recognised in Other comprehensive income is amortised to Property, plant and equipment over the life of the hedged item. If the hedging instrument is terminated, related amounts remain in the hedging reserve provided that the hedged 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.

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).

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 Summary of significant accounting policies (continued)

3.9 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.

3.10 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.

3.11 Maintenance

Maintenance service costs are expensed as incurred.

3.12 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.

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

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

Value in use of rolling stock assets

The Company undertakes a review of residual values of its rolling stock assets at least annually.

If there is indication of impairment of a specific rolling stock fleet, a loss will be recognised to reduce the carrying value to its recoverable value, as determined by its value in use. Value in use is calculated based on the forecast rentals which the assets will generate over their remaining useful economic lives, having regard to the fleet's current and future prospects under a range of re-leasing scenarios. Future rentals are forecast based on past performance, expectation of future performance and market information. Forecast future rentals are discounted assuming a pre-tax discount rate incorporating the time value of money and asset specific risks.

Recoverable value is sensitive to changes in the assumptions described above. The table below illustrates the impact of changes in assumptions on recoverable value for the Company's rolling stock fleet as a whole:

	Recoverable value Increase/(decrease) £000's
End of final lease term	
1 year increase	57,700
1 year reduction	(64,400)

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

3 Summary of significant accounting policies (continued)

3.12 Use of judgements, estimates and assumptions (continued)

Value in use of rolling stock assets (continued)

	Recoverable value Increase/(decrease) £000's
Projected rentals:	
1% increase	37,000
1% reduction	(37,000)
Discount rate:	
0.1% increase	(32,000)
0.1% reduction	32,000

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

4 Implementation of new IFRS Standards

The following standards were implemented with effect from 1 January 2018:

4.1 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 an impact on the carrying value of financial assets or financial liabilities reported as at 31 December 2017.

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.

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," "Cash and cash equivalents" and " Derivative financial instruments."

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 more frequent revision.

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

4 Implementation of new IFRS Standards (continued)

4.1 IFRS 9 – Financial Instruments (continued)

The Company applies the simplified approach to recognise lifetime ECL for trade receivables and lease 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.

Having considered the credit exposure and requirements of IFRS 9, the Company considers that no ECL allowance is required on implementation of the standard, nor during 2018.

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.

4.2 IFRS 15 – Revenue from contracts with customers

IFRS 15 is effective for the accounting periods beginning on or after 1 January 2018. IFRS 15 has had no impact on the recognition and measurement of revenue and therefore no adjustments are required.

IFRS 15 establishes a single comprehensive model in 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".

Except for new disclosures set out in note 5, the new standard has no material impact on the Company.

5 Revenue from contracts with customers and suppliers

Revenue information
The Company generates revenue primarily from the rental of rolling stock assets under operating leases. Total income can be analysed as follows:

	2018 £'000	2017 £'000
Other income	**2,160**	-
Operating lease rental income	**379,956**	373,582
	382,116	373,582

6 Cost of sales

	2018 £'000	2017 £'000
Depreciation	**(168,686)**	(130,265)
Maintenance cost	**(63,546)**	(80,525)
	(232,232)	(210,790)

7 Finance expense

	2018 £'000	2017 £'000
Interest payable to Eversholt Rail Limited	**(93,840)**	(83,128)
Finance charges payable to Eversholt Funding plc	**(918)**	(7,647)
Other interest	**(2,480)**	(2,062)
	(97,238)	(92,837)

Finance expenses represent interest charged in relation to financial liabilities carried at amortised cost.

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

8 Administrative expense

Administrative expense includes the following:

	2018 £'000	2017 £'000
Management fees payable to Eversholt Rail Limited	**(19,183)**	(17,473)
Management fees refunded to Eversholt Investment Limited	**-**	60
Foreign exchange gains	**379**	25
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 (2017: £nil).

9 Directors' emoluments

Three of the Directors have been remunerated by Eversholt Rail Limited.

Two of the Directors have been remunerated by the Company at a cost of £110,381 (2017: £128,622).

The other five Directors are employees of the parent companies they represent and are remunerated by them in their operational country. No specific charge has been made to the Company in this regard.

10 Income tax charge

	2018 £'000	2017 £'000
Current tax		
UK Corporation tax on current year profit	**(704)**	3,851
Adjustment in respect of prior year	**(263)**	(103)
	(967)	3,748
Deferred tax		
Origination and reversal of temporary differences	**(5,483)**	(13,758)
Change in tax rate	**577**	2,100
Adjustment in respect of prior year	**19**	659
	(4,887)	(10,999)
Income tax charge	**(5,854)**	(7,251)

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	**33,060**	71,463
Taxation at corporation tax rate of 19% (2017: 19.25%)	**(6,281)**	(13,757)
Change in tax rate	**577**	2,100
Adjustment in respect of prior year	**(244)**	556
Non-taxable income	**94**	3,850
Income tax charge	**(5,854)**	(7,251)

In addition to the amounts charged to the Income statement, the aggregate amount of current and deferred tax relating to components of other comprehensive income resulted in a £879,526 gain being recognised in total comprehensive income (2017: £1,196,664 loss).

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.

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

11 Dividends

The Company received £nil dividend income (2017: £20,000,000).

For the year ended 31 December 2018 dividends of £10,000,000 have been paid to European Rail Finance Holdings Limited (2017: £100,000,000).

12 Property, plant and equipment

	Rolling stock and other railway assets £'000
Cost	
Balance at 1 January 2017	2,394,249
Additions	248,556
Balance at 31 December 2017	2,642,805
Additions	**261,441**
Disposals	**(924)**
Balance at 31 December 2018	**2,903,322**
Depreciation	
Balance at 1 January 2017	205,051
Charge for the year	130,265
Balance at 31 December 2017	335,316
Charge for the year	**168,686**
Disposals	**(913)**
Balance at 31 December 2018	**503,089**
Carrying value at 31 December 2018	**2,400,233**
Carrying value at 31 December 2017	2,307,489

The cost of tangible fixed assets at 31 December 2018 includes capitalised interest of £40,775,339 (2017: £25,718,165). The capitalisation rate used is the rate of interest attaching to the Company's borrowings attributable to the acquisition of rolling stock.

The depreciation charge is included within the cost of sales in the Income statement.

2018 additions includes non-cash transfers from other comprehensive income of £1,346,471 and bank loan capitalised interest of £97,304.

All fixed assets are subject to operating lease arrangements.

13 Cash and cash equivalents

	2018 £'000	**2017 £'000**
Bank accounts	**50,371**	4,995

14 Trade and other receivables

	2018 £'000	**2017 £'000**
Trade receivables	**2,029**	10,996

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

15 Investments in subsidiaries

	2018 £'000	2017 £'000
Cost at 31 December	**149,319**	149,322

The change in the carrying value of £3,702 reflects the impairment to the investment in Eversholt Rail (365) Limited to £nil, based on the Company's view that it is unlikely that the investee will generate sufficient profits to support the carrying value of the investment.

On 31 May 2017 the Company purchased shares in Eversholt Rail Limited, Eversholt Depot Finance Limited and Eversholt Rail (365) Limited from its subsidiary, Eversholt Rail Holdings (UK) Limited, for a total consideration of £114,974,151.

The subsidiary undertakings of the Company at the end of the year were:

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2018	Ownership Percentage 2017
Eversholt Rail Holdings (UK) Limited	Ordinary Shares	England*	Investment	100	100
Eversholt Rail Limited	Ordinary Shares	England*	Management services	100	100
Eversholt Depot Finance Limited	Ordinary Shares	England*	Leasing	100	100
Eversholt Rail (365) Limited	Ordinary Shares	England*	Leasing	100	100

** Registered office: 210 Pentonville Road, London, N1 9JY*

16 Derivative financial instruments

The Company continues to hold foreign exchange forward contracts to hedge cash flow risk associated with the fluctuations in foreign exchange rates on non-sterling payments for the purchase of new rolling stock. All such contracts are part of hedge accounting relationships.

The fair values of the derivative financial instruments are as follows:

31 December 2018

	Notional Amount £'000	Fair value amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Non-current assets			
FX forward contracts – hedge accounted	**193,786**	**21,519**	**(6,389)**

31 December 2017

	Notional Amount £'000	Fair value amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Non-current assets			
FX forward contracts – hedge accounted	**280,680**	27,908	7,492

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

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

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

16 Derivative financial instruments (continued)

The hedging instruments are expected to mature with the following profile

Maturity	Notional Value
Within 1 year	**183,080**
1-2 years	**10,706**

The change in the fair value of the hedged item used as a basis of recognising hedge ineffectiveness is a gain of £6,523,000 (2017: £7,512,000 loss).

Hedge ineffectiveness is attributable to differences between actual and expected dates of cashflows relating to EUR denominated capital expenditure. Expected dates are established when capital commitments first arise and they are used in setting the terms of the related foreign exchange contracts.

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

Movement in fair value of Derivative financial instruments

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance at 1 January 2018	**27,908**	**-**	**27,908**
Unrealised gain through the income statement – hedge ineffectiveness	**134**	**-**	**134**
Unrealised loss through other comprehensive income	**(6,523)**	**-**	**(6,523)**
Balance at 31 December 2018	**21,519**	**-**	**21,519**
Balance at 1 January 2017	20,416	-	20,416
Unrealised loss through the income statement – hedge ineffectiveness	(20)	-	(20)
Unrealised gain through other comprehensive income	7,512	-	7,512
Balance at 31 December 2017	27,908	-	27,908

Movement in Hedging reserve

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance at 1 January 2018	**(23,179)**	**(3,176)**	**(26,355)**
Unrealised loss through other comprehensive income	**6,523**	**-**	**6,523**
Release to property, plant & equipment	**(2,149)**	**802**	**(1,347)**
Income tax on other comprehensive income	**(744)**	**(136)**	**(880)**
Balance at 31 December 2018	**(19,549)**	**(2,510)**	**(22,059)**
Balance at 1 January 2017	(16,944)	(3,569)	(20,513)
Unrealised gain through other comprehensive income	(7,512)	-	(7,512)
Release to property, plant & equipment	-	473	473
Income tax on other comprehensive income	1,277	(80)	1,197
Balance at 31 December 2017	(23,179)	(3,176)	(26,355)

As at 31 December 2018, the hedges were deemed to be highly effective and the fair value asset of the foreign exchange forward contracts was £21,518,734 (31 December 2017: £27,908,113).

The hedging reserve contains balances relating to outstanding and terminated derivative contracts, where the hedged future cashflows are still expected to occur.

Cumulative unrealised losses relating to contracts terminated during the year ended 31 December 2016 remain in other comprehensive income. During the year a loss of £1,346,471 (2017: £473,475 gain) was realised to property, plant and equipment additions; the residual gain recognised in other comprehensive income will amortise to property, plant and equipment in line with the payment profile for the hedged capital expenditure.

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

17 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	**5,935**	5,530
Rentals received in advance	**9,674**	10,690
Accruals	**19,156**	15,136
Other payables	**2,072**	1,082
	36,837	32,438

18 Other liabilities

Other liabilities represents amounts charged to customers under current contracts in relation to their share of future rolling stock maintenance costs after the expiry of the current lease. These amounts will be paid out over the course of future leases, as yet unidentified, to future lessees who will undertake future rolling stock maintenance. Such amounts will never be recognised as revenue in the Company's income statement and can be analysed as follows:

	2018 £'000	2017 £'000
Current	**4,485**	3,142
Non-current	**116,323**	122,361

19 Borrowings

	2018 £'000	2017 £'000
Current		
Eversholt Rail Limited (term loan)	**57,039**	54,588
Non-current		
Eversholt Rail Limited (term loan)	**1,381,791**	1,438,830
Eversholt Rail Limited (intercompany loan)	**865,093**	706,978
Bank loan	**5,883**	5,786
	2,252,767	2,151,594

The term loan with Eversholt Rail Limited is repayable on or before 1 April 2036 with capital and interest payable on a monthly basis. Interest is charged at a fixed rate plus margin.

The 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).

The bank loan is classified as non-current as it is repayable in 2021. Interest on the loan is payable on a six-monthly basis at a floating rate of LIBOR (2017: LIBOR).

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.

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	**59,429**	57,039
In more than two years but not more than five years	**1,066,294**	899,526
In more than five years	**1,127,044**	1,195,029
	2,252,767	2,151,594

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

20 Reconciliation of liabilities arising from financing activities

Financing activities attributable to:	As at 31 December 2017 £'000	Cash Flows (payments)/ receipts £'000	Non-cash finance (income)/ expense £'000	As at 31 December 2018 £'000
Eversholt Rail Limited (term Loan)	1,493,418	(118,760)	64,172	1,438,830
Eversholt Rail Limited	706,978	128,447	29,668	865,093
Bank Loan	5,786	-	97 *	5,883
	2,206,182	9,687	93,937	**2,309,806**

* £97,304 relates to capitalised interest transferred to Property, plant and equipment (see note 12).

21 Deferred tax

Deferred tax liabilities are offset against deferred tax assets where the relevant criteria is met (see note 3). The following is the analysis of the deferred tax balances:

	2018 £'000	2017 £'000
Deferred tax liabilities	**78,834**	74,827

The following are the major deferred tax liabilities/(assets) recognised by the Company and movements thereon during the current and prior reporting year:

	Capital Allowances £000's	Fair value on derivatives £000's	Prior year adjustments £000's	Total £000's
At 1 January 2017	58,440	4,192	-	62,632
Charge/(credit) to Income Statement	13,757	-	(659)	13,098
Charge to other comprehensive income	-	1,197	-	1,197
Effect of change in tax rate:				
- Income Statement	(2,100)	-	-	(2,100)
At 1 January 2018	70,097	5,389	(659)	74,827
Charge/(credit) to Income Statement	5,483	-	(19)	5,464
Credit to other comprehensive income	-	(880)	-	(880)
Effect of change in tax rate:				
- Income Statement	(577)	-	-	(577)
At 31 December 2018	**75,003**	**4,509**	**(678)**	**78,834**

In assessing the recoverability of deferred tax assets, the Company considers the extent to which it is probable that there will be sufficient taxable profits in the future to allow the benefit of part or all of the deferred tax asset to be utilised. In assessing this, the Company considers internal profit projections and budgets and related tax impacts, as well the amount and timing of reversal timing differences giving rise to deferred tax liabilities at the balance sheet date.

22 Share capital

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid		
50,000,002 Ordinary shares of £1 each	**50,000**	50,000

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

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

23 Capital commitments

In respect of capital expenditure:

	2018 £'000	2017 £'000
Authorised and contracted	573,733	746,770

The above represents all capital commitments.

24 Risk management

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

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 3.12.

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

24.1 Residual value risk

The Company's return from operating leases is dependent upon its management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the lease terms (the residual values) differ from those projected at the inception of the leases. The Company regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let at the end of their current lease terms. Provision is made to the extent that the carrying values of leased assets exceed the recoverable value.

The Company seeks to maximise the reletting potential of its assets by active management of the technical and commercial utility of these assets.

The Group has developed a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis. The Group's asset engineering team regularly visits the operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Company and the Group has an excellent knowledge of the current condition of its fleets.

The Company fleet performance is constantly monitored for emerging trends that might indicate that the fleet has developed a problem. In addition, the Group works proactively with the train operator to identify opportunities to improve the performance of the fleet. The Group maintains constant dialogue with the train operator on fleet performance so that any emerging issues can be dealt with quickly.

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.

24.2 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 primarily of borrowings from another group undertaking and equity from its immediate parent.

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

24.3 Credit risk management

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

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

24 Risk management (continued)

24.3 Credit risk management (continued)

The Company's principal credit exposures arise from the obligations of lessees to make lease rental payments; from the obligations of suppliers under contracts for services and supplies; and from the ability of bank counterparties to return cash and cash deposits placed with them and meet obligations under lending arrangements and the derivative financial instruments.

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

As part of the Company's processes for credit risk management and assessment of ECL, management takes into account the following:

- Historical credit experience of the counterparty;
- Past, current and future events and circumstances that could impinge upon the counterparty's performance and ability to perform and service its obligations as they fall due and meet its commitments as they arise. This will include assessment of actual and potential external events, as well as the Company's internal information;
- The nature of the arrangements with the counterparty and whether there is related collateral/security which can be applied;
- The existence of any parties to which the Company might have recourse in the event of a counterparty default, for example, where a counterparty's activities and related obligations (wholly or partly) might be assumed by a successor; and
- The duration of the exposure under review.

Credit assessments might lead to the counterparty being considered in default or amounts due being written off to the extent not recoverable, taking into account collateral/security/recourse arrangements.

Allowances for ECL are calculated on a lifetime basis, where required for trade receivables and lease receivables under IFRS 9. In relation to other financial assets, the Company has only limited instances of assets where 12 month ECL allowances might be required. Therefore the need to consider when there is a significant credit deterioration is only needed in rare situations (for example, debts overdue by more 30 days) and on a case by case basis. Counterparties will be regarded as having low credit risk where an investment grade rating is available.

Credit Risk Exposure

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The Company has established a credit procedure under which each new customer is analysed individually for creditworthiness, including for example, external ratings, if they are available, financial statements, credit agency information and industry information. The Company limits its exposure to credit risk through contractual documentation. In monitoring customer credit risk, customers are considered on an individual basis (or grouped according to their credit characteristics, including their geographic location, industry, trading history with the Company and existence of previous financial difficulties).

The Company's principal exposure to credit risk at 31 December 2018 amounts to the balance of Trade and other receivables as disclosed in note 14, Cash and cash equivalents as disclosed in note 13 and derivative financial instruments assets disclosed in note 16. The carrying amounts of these assets represent the maximum credit exposure.

All such 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.

In particular, substantially all of the trade receivables outstanding at 31 December 2018 have been received subsequent to year end.

24 Risk management (continued)

24.3 Credit risk management (continued)

In light of the above, the Company has determined that no ECL allowance is required. 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.

24.4 Market risk management

24.4.1 Foreign exchange risk

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

24.4.2 Interest rate risk management

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

24.4.3 Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase of £711,005 in interest expense on intercompany loan. The sensitivity analysis is applied to the borrowing rate and performed on the monthly balance of the relevant financial instrument.

24.4.4 Approach to hedging

Consistent with prior years, the Company uses foreign exchange contracts to manage its foreign currency risk by holding foreign exchange forward contracts to hedge the variability in sterling cash flows associated with committed EUR denominated capital expenditure.

Forward foreign exchange contracts are designated as part of hedge accounting relationship 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 of 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 completion of capital expenditure. 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.

24.5 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. The Group's 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.

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

24 Risk management (continued)

24.5 Liquidity risk management

Undiscounted cash flows in respect of financial assets and financial liabilities are analysed below by their contractual due date. Undiscounted cash flows in respect of the intercompany loans with other entities include the principal amount of 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 on the Company assets and liabilities are analysed below by their contractual due date, including estimated interest cash flows where appropriate:

	Carrying value	Total undiscounted cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2018						
Financial assets						
Fair value through profit or loss						
- Derivative financial instruments	**21,519**	**19,834**	**-**	**19,704**	**130**	**-**
Loans and receivables						
- Trade and other receivables	**2,029**	**2,029**	**-**	**2,029**	**-**	**-**
Cash and cash equivalents	**50,371**	**50,371**	**50,371**	**-**	**-**	
	73,919	**72,234**	**50,371**	**21,733**	**130**	**-**
Financial liabilities						
- Trade and other payables	**36,837**	**36,837**	**-**	**36,837**	**-**	**-**
- Intercompany term lending	**1,438,830**	**1,438,830**	**-**	**57,039**	**249,047**	**1,132,744**
- Intercompany loan	**865,093**	**865,093**	**-**	**-**	**865,093**	**-**
- Bank loan	**5,883**	**5,883**	**-**	**-**	**5,883**	**-**
	2,346,643	**2,346,643**	**-**	**93,876**	**1,120,023**	**1,132,744**
Total financial instruments	**(2,272,724)**	**(2,274,409)**	**50,371**	**(72,143)**	**(1,119,893)**	**(1,132,744)**
31 December 2017						
Financial assets						
Fair value through profit or loss						
- Derivative financial instruments	27,908	7,288	-	1,649	5,639	-
Loans and receivables						
- Trade and other receivables	10,996	10,996	-	10,996	-	-
Cash and cash equivalents	4,995	4,995	4,995	-	-	-
	43,899	23,279	4,995	12,645	5,639	-
Financial liabilities						
- Trade and other payables	32,438	32,438	-	32,438	-	-
- Intercompany term lending	1,493,418	1,493,418	-	54,588	243,801	1,195,029
- Intercompany loan	706,978	706,978	-	-	706,978	-
- Bank loan	5,786	5,786	-	-	5,786	-
	2,238,620	2,238,620	-	87,026	956,565	1,195,029
Total financial instruments	(2,194,721)	(2,215,341)	4,995	(74,381)	(950,926)	(1,195,029)

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

25 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	Fair value Level 1	Fair value Level 2	Fair value Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	16	21,519	-	21,519	-
Loans and receivables					
- Trade and other receivables	14	2,029			
Cash and cash equivalents	13	50,371			
Total Financial assets		73,919			
Financial liabilities					
Non-derivative instruments – amortised cost					
- Trade and other payables	17	36,837			
- Intercompany term lending	19	1,438,830			
- Intercompany loan	19	865,093			
- Bank loan	19	5,883			
Total Financial liabilities		2,346,643			
Total Financial instruments		(2,272,724)			

31 December 2017	Note	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	16	27,908	-	27,908	-
Loans and receivables					
- Trade and other receivables	14	10,996			
Cash and cash equivalents	13	4,995			
Total Financial assets		43,899			
Financial liabilities					
Non-derivative instruments – amortised cost					
- Trade and other payables	17	32,438			
- Intercompany term lending	19	1,493,418			
- Intercompany loan	19	706,978			
- Bank loan	19	5,786			
Total Financial liabilities		2,238,620			
Total Financial instruments		(2,194,721)			

26 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).

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

27 Operating lease arrangements

The Company as lessor

The Company has contracts with lessees in relation to rolling stock. At the reporting date, the outstanding commitments for future minimum lease receipts under operating leases are as follows:

	2018 £'000	2017 £'000
Within one year	**259,823**	314,164
2-5 years	**333,399**	486,632
Over 5 years	**76,914**	135,915
	670,136	936,711
Aggregate operating lease rentals receivable in the year	**379,956**	373,582

28 Related-party transactions

28.1 Identity of related parties

The Company has a related party relationship with its Directors (refer to 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
- Eversholt Investment Limited
- European Rail Finance Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Finance Holdings Limited
- Eversholt Funding plc
- Eversholt Rail Limited
- Eversholt Depot Finance Limited
- Eversholt Rail (365) Limited
- European Rail Finance (2) Limited

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited, incorporated in 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 European Rail 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

Notes to the annual financial statements (continued)

for the year ended 31 December 2018

28 Related-party transactions (continued)

28.2 Transactions with related parties

Dividend income and dividends paid are more fully described in note 11. The Company has loans with related parties, more fully described in note 19. Interest on the loans is more fully described in note 7.

The Company paid management fees to Eversholt Rail Limited of £19,183,216 (2017: £17,473,342). In 2017, the Company received a refund of management fees from Eversholt Investment Limited of £60,000.

The Company paid Eversholt Rail Limited £62,568,152 for the procurement of maintenance of the rolling stock (2017: £68,728,569).

The Company paid transaction fees to Eversholt Funding plc of £708,000 (2017: £845,000).

29 Contingent liabilities

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

30 Subsequent events

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