Eversholt UK Rails (Holding) Limited
(Security group)

Non-statutory annual report and financial statements
for the year ended 31 December 2018

Registered No: 10783654

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

Contents **Page**

Strategic report
for the year ended 31 December 2018

Presentation of information

These financial statements are non–statutory financial statements and have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents entered into by certain of the subsidiaries of Eversholt UK Rails (Holding) Limited (the "Company") on 4 November 2010 and which the Company acceded to on 28 June 2017. The Security Group (the 'Group') consists of the Company and its subsidiaries except for Eversholt Rail (365) Limited (see note 18).

The Company was incorporated on 22 May 2017 as part of a group reorganisation and acquired 100% of the share capital of Eversholt Investment Limited (the previous head of the Group) from the Company's parent, Eversholt UK Rails Limited. The sole purpose of the reorganisation was to simplify the corporate structure of the Group. The reorganisation did not result in any changes to the capital structure of the Group. As highlighted in note 2, the Group has presented its non-statutory financial statements as though the current Group structure had always been in place.

The Strategic report covers matters relating to the Group throughout the current and comparative periods as though the Group was in existence for both periods.

Principal activities

The principal activity of the Group is to own and lease rolling stock and other rail assets in the United Kingdom. The Group owns a diverse range of passenger rolling stock including regional, commuter and high speed passenger trains as well as freight locomotives. Customers comprise train operating companies ("TOCs") and freight operating companies ("FOCs"). Most TOCs are granted franchises to operate passenger rail services by the Department for Transport ("DfT") (or other relevant franchising authorities) whilst FOCs and other TOCs operate on an open access basis. Rolling stock is typically leased to customers on medium to long-term operating leases. The Group also provides services in relation to the procurement and management of heavy maintenance of rolling stock on behalf of its customers.

Business review

During the year the Group continued to progress its programme for the delivery of new build rolling stock as well as its management and procurement of heavy maintenance and investments in upgrades to existing fleets as detailed below.

Contracted new build

The Group has a portfolio of contracted new build rolling stock orders for delivery over the period 2018 to 2020, which when complete will represent an investment of £1.1bn.

Delivery programmes remain on plan for the four new fleets currently being procured:

- Of the 236 vehicles which make up the 36 C802 bi-mode trains, 118 vehicles had been accepted by 31 December 2018 and are now in service and on lease to Great Western Railway. A further 37 vehicles were in the UK undergoing commissioning testing having been shipped from Hitachi's factory in Italy. The remaining vehicles are forecast to be delivered and enter service in 2019.
- The Group accepted 6 of the 149 C195 regional fuel-efficient diesel vehicles to run on the Northern franchise during the year. As at 31 December 2018 a further 5 vehicles were undergoing commissioning testing and 50 vehicles were in various stages of production at CAF factories in Irun, Spain and Newport, Wales.
- Of the C331 fleet of regional electric trains for the Northern franchise, 7 vehicles were in the UK undertaking final testing on the UK network as at the end of the 2018 and 50 vehicles were in various stages of production in CAF's factory in Zaragoza, Spain. The programme is forecast to complete in 2020 and in total the fleet will comprise 141 vehicles forming 43 trains.
- 10 of the C397 high speed electric vehicles were undergoing trials at a test facility in the Czech Republic and 5 vehicles were in the UK ready to start testing on the UK network at 31 December 2018. All 45 remaining vehicles were in various stages of production and are expected to enter service in 2019. Once in service, the new trains will run on the TransPennine Express franchise operated by First Group.

Expenditure on new build rolling stock in 2018 amounted to £192m.

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

Business review (continued)

Heavy maintenance

During the year the Group delivered heavy maintenance projects for 372 vehicles across 10 of its fleets, in line with planned mileage-based and time-based maintenance plans. Completed projects include the C334 mileage-based overhaul and C365 mileage-based and time-based overhauls. Rolling mileage-based maintenance work continued on the IC225, C315 and C318 fleets. New projects were initiated for C320/4 and C321 mileage-based and time-based overhauls. In total, the Group spent £39.4m on maintenance related activity in 2018.

Investment in existing fleets

The Group undertakes strategic upgrades to rolling stock to ensure that its fleets continue to meet regulatory requirements and the current and future demands of its customers. Several upgrade projects were progressed during 2018 which include; C321 Renatus upgrade, C465 Persons of Reduced Mobility modifications and C185 mid-life refresh. Mid-life refurbishment to C375 and the conversion of seven C321 to C320/4 units were completed in 2018. The Group also worked with its customers to fund £3.6m of lessee procured modifications, the cost of which will be recovered through enhanced operating lease rentals. Expenditure on modification and refurbishment projects totalled £55.8m during 2018.

Third party asset management

The Group continued to support Cross London Trains (XLT) with the delivery and introduction to service of the C700 fleet of electric trains built by Siemens in Germany. The delivery of these new trains started on time in 2016 and the final train was delivered on time in 2018; the fleet comprising 1,140 vehicles is now in-service with Govia Thameslink Railway. The Group continues to support XLT with asset management activities in line with a contracted Service Level Agreement.

Leasing developments

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.

A new lease was secured to supply Mk4 coaches to run on the Wales and Borders franchise. This is the first time that the Group has leased rolling stock on the Wales and Borders franchise and marks the start of a new customer relationship with Keolis Amey, who jointly run the Wales service.

The Group has also secured lease extensions in relation to rolling stock running on South Eastern and East Midland franchises, both of which are subject to delayed refranchising competitions now expected to be awarded in 2019. Utilisation of the Group's rolling stock averaged 100% for 2018 with only a small number of vehicles off-lease and available for re-leasing during the year.

The Group maintains regular contact with its customers, other train operators, Department for Transport and other franchising authorities in order to identify opportunities to cascade rolling stock, often with necessary enhancements, to alternative franchises. Opportunities for mid-life fleets may be fragmented for the next two to three years as substantial volumes of new rolling stock enters service across the network.

The number of vehicles coming off lease is expected to increase in 2019, largely as a result of the introduction of new rolling stock onto the network. Most of these vehicles are approaching the end of their useful lives, such as the C313 and C315 fleets which were manufactured in the late 1970s and early 1980s. The timing of the replacement of such fleets is dependent on the introduction of new rolling stock and the Group will continue to work flexibly with customers to ensure that their services are maintained in light of changes to new vehicle delivery programmes. The Group has established procedures and has engaged with third parties to reprocess end of life vehicles in a safe and environmentally sustainable way.

Business review (continued)

Future developments

In response to demand for long-term alternatives to diesel propulsion, the Group continues to work with its partners on a range of alternative propulsion technologies including hydrogen-power, battery and other emerging technologies. During 2018, the Group worked in partnership with Alstom on designs for a new hydrogen powered train for the UK market. The design is based on converting existing C321 trains to create a clean train for the modern age. These trains could run across the UK as early as 2022, emitting only water. The Group has also joined an industry consortium that will develop a Very Light Rail vehicle in response to the need for lightweight energy-efficient system solutions.

The Group continues to consider all opportunities for growth, evaluating their strategic fit, potential risks and rewards.

Risk management

The Group has established financial risk management objectives and policies. These risks, together with an analysis of the exposure to such risks, are set out in note 31 of the financial statements.

The principal business risk for the Group is in respect of residual value of its operating lease assets. The Group seeks to maximise the re-letting potential, and therefore the residual value, 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 asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Group has an excellent knowledge of the current condition of its fleets.

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 issues can be dealt with quickly.

Modifications to increase asset value by fleet enhancement are delivered by an in-house team of asset managers. Significant investment has been made in the production of mock-ups and vehicle demonstrators in order to advertise the available options. New engineering solutions have been developed to create comfortable and modern passenger environments in preparation for new franchise opportunities; a refurbished interior can be comparable to those offered by new rolling stock.

An assessment is carried out by management at least annually of the commercial value of all operating lease assets, measured as the present value of the net anticipated cash flows arising from ownership over life. This assessment is based on the Group's knowledge of the assets and the rolling stock leasing market.

This assessment provides a basis for measuring the success of the Group in managing its assets, as well as for determining if that value is below the current book value and therefore an impairment provision might be needed.

Financial performance

Financial performance is driven by the Group's ability to realise anticipated capital rentals from its rolling stock and other rail assets.

During the year, the Group generated a profit of £30,935,000 (2017: profit of £37,366,000). As at 31 December 2018 the Group had net liabilities of £306,534,000 (2017: £297,324,000). The average number of persons employed by the Group during the year was 116 (2017: 110).

The Group's results for the year are detailed in the Income statement on page 12.

The Group is financed by a mix of equity and senior debt. The terms of the senior debt contain certain covenants; the business is managed to protect compliance with these covenants. Monthly management reporting and analysis to support business decisions considers current and forecast measurements of:

Financial performance (continued)

- Its leverage test (net debt as a percentage of EBITDA – earnings before interest, tax, depreciation and amortisation); and
- Its interest cover test (EBITDA divided by net interest payable); and
- Its NPV test (the extent to which net debt is covered by the net present value of anticipated capital rentals);
- Its net exposure to interest rates and foreign exchange; and
- Its profitability measured by EBITDA and profit after tax.

The Group also considers fleet utilisation and a number of key non-financial indicators relating to asset performance including condition, reliability and maintenance.

As described in note 2.4 the Directors are satisfied that the Group, through the support of its parent, has the resources to continue in business for the foreseeable future.

Supplier payment policy

The Group does not currently subscribe to any code or standard on payment practice. It is the Group's policy, however, to set the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

Capital management

The Group is not subject to externally imposed capital requirements. It is the Group's objective to maintain a strong capital base to support the development of its business.

Business environment

The UK Rail Review

In 2018, the UK Government established a Rail Review to recommend the most appropriate organisational and commercial frameworks to deliver the government's vision for the UK to have a world-class railway, working as part of the wider transport network. The Group will monitor progress and outputs as the Review proceeds, as well as contributing through the consultation process.

The withdrawal of the United Kingdom from the European Union ("Brexit")

The Group monitors the progress of negotiations and parliamentary debates regarding the outcome of Brexit and has assessed the potential impacts of Brexit under a range of possible outcomes. The position is being kept under close review.

The Group carries out its business solely in the UK and its rolling stock and other rail assets are operated and maintained entirely in the UK. The risk to the Group of disruption or increased cost to the supply chain post Brexit has been mitigated where possible.

Climate change

The Group monitors the performance of its rolling stock on a regular basis. Amongst other things, this includes reviewing feedback from TOCs and FOCs (customers and operators of rolling stock) and emission data. Impacts on climate are managed and mitigated where possible, in conjunction with customers.

In early 2018, the UK Government challenged the UK rail industry to remove all diesel-only trains by 2040 and to provide a vision for how it will decarbonise. This has prompted significant debate and the Group is an active member of the industry's discussions and response to how any change might take place. Whilst deliberations are still at an early stage, it has been recognised that the railway remains a very low carbon form of transport, using its two principal traction modes, electricity and diesel, very efficiently. Inevitably, change will not be immediate and progress will need to be managed in a safe and as effective way as possible.

The Company, as well as the industry generally, recognises that it has an important role to play in the UK's overall "green" agenda. Together with other industry participants, the Group will continue to improve current traction modes and will seek to innovate and introduce new and improved technologies.

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

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 of the Company 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. 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

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

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

Political donations

No political donations were made during the financial year (2017: £nil).

Dividends

Dividends of £40,100,000 were paid in the year (2017: £43,040,992).

Going concern basis

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

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, Deloitte LLP was appointed the Auditor.

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 of Eversholt UK Rails (Holding) Limited have accepted responsibility for the preparation of these non-statutory financial statements for the year ended 31 December 2018.

The Directors have elected to prepare these non-statutory financial statements in accordance with the basis of preparation as described in note 2 to the non-statutory financial statements. The non-statutory financial statements have been properly prepared in accordance with the summary of significant accounting policies as described in note 3 to the financial statements. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable International Financial Reporting Standards ("IFRSs") have been followed; and
- Prepare the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These financial statements were approved by the Board of Directors on 15 February 2019 and were signed on its behalf by:

M B Kenny
Director

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

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group)

for the year ended 31 December 2018

Report on the audit of the non-statutory financial statements

Opinion

In our opinion, the non-statutory financial statements for the year ended 31 December 2018 have been properly prepared in accordance with the basis of preparation and accounting policies as stated in notes 2 and 3.

We have audited the non-statutory financial statements of Eversholt UK Rails (Holding) Limited (Security Group) (the 'Group') which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated statement of financial position;
- the Consolidated cash flow statement;
- the Consolidated statement of changes in equity; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is the accounting policies as stated in note 3 to the financial statements.

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 non-statutory 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 non-statutory 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.

We draw attention to note 2.1 to the non-statutory financial statements, which describes basis of accounting. The non-statutory financial statements are prepared to assist the Group to fulfil their obligations to provide audited non-statutory financial statements under the terms of the financing agreement (the "Agreement"). As a result, the non-statutory financial statements may not be suitable for another purpose. Our opinion is not modified in respect of that matter.

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 non-statutory financial statements is not appropriate; or

- the Directors have not disclosed in the non-statutory 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 non-statutory financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group) (continued)

for the year ended 31 December 2018

Other information

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

In connection with our audit of the non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory 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 non-statutory 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 non-statutory financial statements in accordance with the accounting policies as stated in notes 2 and 3 to the financial statements and for such internal control as the Directors determine is necessary to enable the preparation of non-statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory 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 non-statutory financial statements

Our objectives are to obtain reasonable assurance about whether the non-statutory 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 non-statutory financial statements.

A further description of our responsibilities for the audit of the non-statutory 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

Matters on which we are required to report by exception

Under the Agreement we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept; 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 for the exclusive use of the Directors and solely for the purpose of reasonable assurance that the financial statements are properly prepared. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

Independent Auditor's report to the Directors of Eversholt UK Rails (Holding) Limited (Security group) (continued)
for the year ended 31 December 2018

The engagement partner on the audit resulting in this independent auditor's report is Makhan Chahal.

Deloitte LLP

Deloitte LLP
London
United Kingdom

15th February 2019

Consolidated income statement
for the year ended 31 December 2018

	Note	Group Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Revenue			
Finance lease income		**518**	635
Operating lease income		**309,824**	305,066
Maintenance income		**57,449**	70,264
Other revenue		**7,136**	2,434
Total revenue	5.1	**374,927**	378,399
Cost of sales	*6*	**(185,770)**	(170,570)
Gross profit		**189,157**	207,829
Finance income	*7*	**2,194**	840
Finance expense	*8*	**(152,478)**	(153,137)
Net fair value gain on derivatives	*16*	**15,067**	15,868
Pension finance expense	*30.6*	**(95)**	(147)
Write down of investment in subsidiary	*18*	**(2,835)**	-
Administrative expense	*9*	**(20,525)**	(20,982)
Loss on disposal of property, plant and equipment		**(16)**	-
Profit before tax		**30,469**	50,271
Income tax credit/(charge)	*12*	**466**	(12,905)
Profit for the year		**30,935**	37,366

There were no discontinued or discontinuing operations during the year.

The notes on pages 16 to 52 form an integral part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Note	Group Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit for the year		**30,935**	37,366
Other comprehensive (expense)/income			
Actuarial gain on defined benefit scheme	30.7	**441**	2,452
Tax in respect of actuarial gain on defined benefit scheme	17	**(75)**	(417)
Effective portion of changes in fair value of cash flow hedges	16	**(2,735)**	5,792
Realised loss on cash flow hedges to property, plant and equipment	16	**2,240**	296
Tax credit/(charge) on changes in effective portion of changes in fair value of cash flow hedges	17	**84**	(1,035)
		(45)	7,088
Total comprehensive income for the year		**30,890**	44,454

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

Consolidated statement of financial position
as at 31 December 2018

		Group	
		As at 31 December 2018	As at 31 December 2017
Assets	*Note*	£'000	£'000
Non-current assets			
Property, plant and equipment	*13*	**2,117,835**	2,009,163
Finance lease receivables	*14*	**5,415**	6,333
Derivative financial instruments	*16*	**23,298**	34,202
Deferred tax	*17*	**29,189**	30,521
Investments in subsidiary	*18*	**-**	2,835
		2,175,737	2,083,054
Current assets			
Inventory	*19*	**736**	942
Finance lease receivables	*14*	**918**	865
Trade and other receivables	*15*	**21,211**	42,549
Cash and cash deposits	*20*	**224,716**	344,605
		247,581	388,961
Total assets		**2,423,318**	2,472,015
Liabilities and equity			
Current liabilities			
Trade and other payables	*21*	**54,662**	58,999
Current tax		**4,194**	8,978
Borrowings	*22*	**20,620**	20,534
Other liabilities	*24*	**4,485**	3,142
Provisions	*25*	**35**	35
		83,996	91,688
Non-current liabilities			
Retirement benefit obligation	*30.5*	**3,691**	3,874
Borrowings	*22*	**2,283,924**	2,283,562
Amounts owed to Eversholt Rail (365) Limited		**7,474**	13,695
Deferred tax	*17*	**81,990**	78,298
Contract liabilities	*5*	**24,219**	24,390
Other liabilities	*24*	**116,323**	122,361
Derivative financial instruments	*16*	**128,235**	151,471
		2,645,856	2,677,651
Total liabilities		**2,729,852**	2,769,339
Equity			
Share capital	*26*	**-**	-
Other reserve		**13,672**	13,672
Accumulated deficit		**(320,904)**	(312,105)
Hedging reserve		**698**	1,109
Total equity		**(306,534)**	(297,324)
Total equity and liabilities		**2,423,318**	2,472,015

The notes on pages 16 to 52 form an integral part of these financial statements. The financial statements were approved by 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: 10783654

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	Group Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flow from operating activities			
Profit before tax		**30,469**	50,271
Adjustments for:			
- Depreciation	*13*	**152,952**	111,965
- Write down of inventory	*6*	**206**	206
- Impairment of investments in subsidiary	*18*	**2,835**	-
- Fair value adjustment on derivative financial instrument	*16*	**(15,067)**	(15,869)
- Loss on disposal of property, plant and equipment		**16**	-
- Unwinding of capitalised finance charges	*8*	**2,598**	10,105
- Interest on net borrowings	*7,8*	**147,685**	142,192
- Adjustment for non-cash element of pension charge		**258**	358
Operating cash flows before changes in working capital		**321,952**	299,228
Decrease in finance lease receivable		**865**	1,001
Decrease/(increase) in trade and other receivables		**21,338**	(12,871)
(Decrease)/increase in other and contract liabilities		**(7,328)**	20,784
(Decrease)/increase in trade and other payables		**(4,420)**	5,795
Net cash flow generated by operating activities		**332,407**	313,937
Taxation received/(paid)		**715**	(7,325)
Interest received	*7*	**2,194**	840
Net cash generated by operating activities		**335,316**	307,452
Cash flow from investing activities			
Acquisition of property, plant and equipment	*13*	**(244,346)**	(248,436)
Proceeds from disposal of property, plant and equipment		**4**	-
Investment in short-term bank deposits	*20*	**220,000**	(250,000)
Net cash utilised in investing activities		**(24,342)**	(498,436)
Cash flow from financing activities			
Funds raised	*22*	**-**	500,000
Preference share redeemed	*22*	**-**	(25,000)
Preference share issued	*22*	**-**	2,500
Bank loans repaid	*22*	**-**	(50,000)
Interest paid on bank loans		**-**	(1,622)
Interest paid on loan from Eversholt Investment Group (Luxembourg) SARL		**-**	(24,143)
Interest paid on bonds	*23*	**(98,375)**	(68,451)
Interest paid on loan from Eversholt UK Rails Limited	*23*	**(47,891)**	(23,880)
Profit Participating Shares interest paid	*23*	**(271)**	(793)
Interest paid on swaps	*23*	**(15,735)**	(16,261)
Other transaction costs paid	*23*	**(2,362)**	(5,133)
Payment to Eversholt (365) Limited	*23*	**(6,129)**	(9,153)
Dividends paid	*28*	**(40,100)**	(43,041)
Net cash (utilised in)/generated by financing activities		**(210,863)**	235,023
Net movement in cash and cash equivalents		**100,111**	44,039
Cash and cash equivalents at beginning of the year		**94,605**	50,566
Cash and cash equivalents at end of the year	*20*	**194,716**	94,605

Consolidated statement of changes in equity
for the year at 31 December 2018

	Note	Share capital £'000	Other reserve £'000	Hedging reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 January 2017		-	13,672	(3,944)	(308,465)	(298,737)
Profit for the year		-	-	-	37,366	37,366
Effective portion of changes in fair value of cash flow hedges	*16*	-	-	5,792	-	5,792
Realised loss on cash flow hedges to Property, plant and equipment	*16*	-	-	296	-	296
Tax charge on changes in effective portion of changes in fair value of cash flow hedges	*17*	-	-	(1,035)	-	(1,035)
Actuarial gain on defined benefit scheme after tax		-	-	-	2,035	2,035
Total comprehensive income		-	-	5,053	39,401	44,454
Dividend paid	*28*	-	-	-	(43,041)	(43,041)
Balance at 31 December 2017		-	13,672	1,109	(312,105)	(297,324)
Profit for the year		-	-	-	**30,935**	**30,935**
Effective portion of changes in fair value of cash flow hedges	*16*	-	-	**(2,735)**	-	**(2,735)**
Realised loss on cash flow hedges to Property, plant and equipment	*16*	-	-	**2,240**	-	**2,240**
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	*17*	-	-	**84**	-	**84**
Actuarial gain on defined benefit scheme after tax		-	-	-	**366**	**366**
Total comprehensive income		-	-	**(411)**	**31,301**	**30,890**
Dividend paid	*28*	-	-	-	**(40,100)**	**(40,100)**
Balance at 31 December 2018		-	**13,672**	**698**	**(320,904)**	**(306,534)**

Dividends of £393,137 per share were paid during the year (2017: £421,971 per share).

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

1 General Information

Eversholt UK Rails (Holding) Limited is a private company limited by shares (see note 26). 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 Basis of consolidation

The Company was incorporated on 22 May 2017 as part of a group reorganisation as a direct subsidiary of Eversholt UK Rails Limited, (itself a direct subsidiary of UK Rails SARL) and subsequently acquired 100% of the share capital of Eversholt Investment Limited from Eversholt UK Rails Limited. The sole purpose of the reorganisation was to simplify the corporate structure of the Eversholt UK Rails Group. The reorganisation did not result in any changes to the capital structure of this group.

As UK Rails SARL controlled the Company and Eversholt Investment Limited both before and after the group reconstruction, there was no loss of control of the subsidiary undertakings during this restructuring process and so the results of the newly consolidated group headed by the Company have been prepared on the basis that the Group had always existed in its current form.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 "Business Combinations" provided that they are controlled by the same party both before and after the business combination. As a consequence, the integration of the Company has been prepared under merger accounting principles. This does not conflict with IFRS and reflects the economic substance of the transaction. Differences on consolidation arising from the change in the head of group post the reorganisation detailed above are recorded in other reserve. The amount in other reserve comprises the difference between the share capital and share premium from the previous head of the group (Eversholt Investment Limited) and the new head (Eversholt UK Rails (Holding) Limited).

The consolidated financial statements of Eversholt UK Rails (Holding) Limited and its subsidiaries except for Eversholt Rail (365) Limited (the "Group") have been prepared solely for the reporting requirements of the Financing Documents dated 4 November 2010 entered into by certain of the Company's subsidiaries and which the Company acceded to on 28 June 2017.

In accordance with those Financing Documents, the Group's interest in Eversholt Rail (365) Limited is not consolidated but stated at cost less impairment losses, where appropriate. All other subsidiaries are consolidated from the date that the Company gains control. The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of completion. Acquisition-related costs are recognised as an expense in the Income statement in the period in which they are incurred. The acquired assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition.

Other than Eversholt Rail (365) Limited, entities that are controlled by Eversholt UK Rails (Holding) Limited are consolidated until the date that control ceases. All intercompany transactions are eliminated on consolidation, other than transactions with Eversholt Rail (365) Limited.

2.2 Compliance with IFRS

The consolidated financial statements of the Group have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. Except for the disaggregation of Eversholt Rail (365) Limited, these financial statements have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ("EU"). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU.

2 Basis of Preparation (continued)

2.2 Compliance with IFRS (continued)

At 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018 affecting these consolidated 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 Group.

Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2018 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU, except as noted above.

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.

2.3 Standards and Interpretations issued by the IASB

During the year, the Group adopted a number of interpretations and amendments to standards which had no material 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 Group's financial statements as at 31 December 2018. The following adopted IFRSs have been issued but have not been applied by the Group in these financial statements. They are applicable for periods beginning on or after 1 January 2019 and, at this stage, 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 Group will be 1 January 2019.

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

The Group 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.

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

Impact on Lessee Accounting

Operating leases:

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

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

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

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

2 Basis of Preparation (continued)

2.3 Standards and Interpretations issued by the IASB (continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £7,401,805 and a preliminary assessment indicates that the Group will recognise a related right-of-use asset of £4,894,189 and a corresponding lease liability of £6,735,083. The impact on the Income statement is to decrease future administrative expenses, and to increase depreciation/interest expense by similar amounts.

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

Finance leases:

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

Impact on Lessor Accounting

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

2.4 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's immediate parent, Eversholt UK Rails Limited, as its viability is dependent upon the ability of the immediate parent to provide funds for the Group 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 Group has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.

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.

The capital element of the obligation to make future payments is included in liabilities.

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

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

3 Summary of significant accounting policies (continued)

3.2 Finance income and expense

Finance income and expense for all interest bearing financial instruments is recognised in 'Finance income' and 'Finance expense' in the Income statement using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant periods.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating the effective interest rate, the Group 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 Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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

3.3 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'.

3.4 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 reporting 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 Summary of significant accounting policies (continued)

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.

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 accordance with IFRS 3 "Business Combinations" the Group restated its rolling stock and other railway assets to their fair value upon acquisition of the Group following a business combination in December 2010.

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 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.

Equipment, fixtures and fittings are stated at cost, being the fair value at acquisition date less any impairment losses and depreciation calculated on a straight-line basis to write down the assets over 2 to 5 years.

The depreciation charge is included in the Income statement as detailed in notes 6 and 9.

Assets held under finance leases are depreciated over the expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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 Group 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.

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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. 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 Group's Statement of financial position when the Group 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 Group 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 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 or 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, other than derivatives are measured at amortised cost using the effective interest rate method.

The Group 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:

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Impairment of financial assets (continued)

- Trade receivables and contract assets which result from transactions within the scope of IFRS 15 and which do not contain a significant financing component; and
- Finance 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.

Derivatives and hedge accounting

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and 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 Group 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 paid 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.

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Determination of fair value (continued)

Where relevant, 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.

3.9 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 Group's financing activities, through which the Group 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 income, costs, contract assets and liabilities

Following the industry standard and as acknowledged by legislation, heavy maintenance services are provided to successive lessees based on a whole-of-life model. Amounts received under these arrangements that relate to maintenance services to be performed in future years are included in contract liabilities. When maintenance services are performed, the cost of which will be recovered under these arrangements only in future years, the future recoverable amount is included in contract assets. Revenue from maintenance services rendered is recognised when the services are provided and performance obligations satisfied. In all cases maintenance service costs are expensed as incurred. This policy reflects the introduction of IFRS 15 revenue in 2018 (see note 5).

3.12 Retirement benefit obligations

The Group provides defined benefit and defined contribution schemes on behalf of directors and staff. The defined benefit scheme is funded by contributions partly from the employees and partly from the Group at rates assessed by an independent actuary. These contributions are invested separately from the Group's assets.

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

3 Summary of significant accounting policies (continued)

3.12 Retirement benefit obligations (continued)

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in the other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the Income statement.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The defined benefit liability recognised in the Statement of financial position represents the fair value of plan assets less present value of defined benefit obligations adjusted for unrecognised past service costs.

Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3.13 Inventories

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

3.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The provision is recognised as the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

3.15 Preference shares

Preference shares issued by the Group are classified as a liability where the holder of these shares has a fixed entitlement to a dividend. The dividend payable is recorded within finance expense.

3.16 Use of judgements, estimates and assumptions

In the application of the Group'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.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of revision and future years if the revision affects both current and future years.

No significant judgements have been required in the process of applying the Group's accounting policies.

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

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

a. Valuation of defined benefit retirement obligation

In making their estimate of the valuation of the defined benefit retirement obligations the Directors have made a number of assumptions. These assumptions are more fully described in note 30.

3. Summary of significant accounting policies (continued)

3.16 Use of judgements, estimates and assumptions (continued)

Critical estimates and assumptions in applying the Group's accounting policies (continued)

b. Value in use of rolling stock assets

The Group 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 Group's rolling stock fleet as a whole:

	Recoverable value Increase/(decrease) £000
End of final lease term	
1 year increase	57,700
1 year reduction	(64,400)
Projected rentals:	
1% increase	37,000
1% reduction	(37,000)
Discount rate:	
0.1% increase	(32,000)
0.1% reduction	32,000

The Group, other than above, does not have any other key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period 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 Group 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 Group 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 Group's assets or liabilities are summarised below:

4 Implementation of new IFRS Standards (continued)

4.1 IFRS 9 – Financial Instruments (continued)

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 any effect on the Group'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 Group's financial assets. These include 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 Group's non derivative financial liabilities.

Derivatives continue to be carried at fair value through the Income statement, except where they are part of a cashflow 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 more frequent revision. The new impairment model applies to financial assets measured at amortised cost.

The Group applies the simplified approach to recognise lifetime ECL for Trade and other receivables, as well as Finance 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

Disclosure
Additionally, the Group 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 Group has elected to use the more principles-based approach to hedge accounting introduced by IFRS 9. IFRS 9 requires the Group 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. The Group has elected to adopt IFRS 15 using the modified retrospective approach, with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated.

IFRS 15 establishes a single comprehensive model to account 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 Group.

5 Revenue from contracts with customers

5.1 Revenue information

The Group generates revenue primarily from the rental of rolling stock assets under operating leases and where applicable, from the provision of maintenance services. Total income can be analysed as follows:

	Group Year ended 31 December 2018 £'000	Group Year ended 31 December 2017 £'000
Operating lease rental income	**309,824**	305,066
Finance lease rental income	**518**	635
Revenue from contracts with customers		
- Maintenance income	**57,449**	70,264
- Other income	**7,136**	2,434
	374,927	378,399

Maintenance income

Maintenance income from contracts with customers arises wholly in the UK and is recognised as services are provided over time. Revenue (and the terms of payments by customers) is determined by reference to transaction prices within formal contracts between the Group and its customers which are adjusted periodically by reference to pricing indices.

Maintenance revenue is recognised over time, when control of the service is transferred to the customer. This is measured by reference to consideration specified in the contract with a customer and maintenance expenditure incurred (i.e. applying an input method, as being representative of work performed and therefore performance obligations being satisfied). Contract liabilities are expected to be recognised as revenue over the course of contracts (which are typically 10 years or less), as expenditure is incurred.

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2018 is set out below. As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2017 is not disclosed.

As maintenance expenditure is incurred, the Group expects that these performance obligations will be satisfied in the following periods:

	2018 £'000
Within 1 year	**35,282**
1-5 years	**61,640**
	96,922

Other income

Other income primarily relates to the provision in the UK of asset management services.

The transaction price allocated to (partially) unsatisfied performance obligations at 31 December 2018 is set out below. As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2017 is not disclosed.

Performance obligations are expected to be fulfilled in relation to customers in the following periods:

	2018 **£000**
Within 1 year	2,842
1-2 years	2,932
2-5 years	9,797
> 5 years	35,186
	50,757

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

5 Revenue from contracts with customers

5.2 Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers. In previous periods, such amounts were described as "prepaid maintenance" and "deferred income" respectively. Descriptions in the Statement of financial position have been updated accordingly.

Contract assets, contract liabilities and trade receivables are as follows:

	Group	
	Year ended 31 December 2018 £'000	**Year ended 31 December 2017 £'000**
Contract assets	**16,363**	30,093
Contract liabilities	**24,219**	24,390
Trade receivables	**2,730**	11,847

The contract assets relate to the Group's rights to consideration for services provided but not billed at the reporting date. The contract assets are reduced as the customer is billed for services in accordance with the contracted billing profile and any necessary performance obligation are satisfied.

The contract liabilities relate to consideration received from customers for maintenance of rolling stock in advance of related services being provided.

The amount of £24,389,933 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2018.

Current year movements on these amounts can be attributed to normal business activity (i.e. the recognition of revenue; maintenance services performed; amounts invoiced; and consideration for services received in advance of performing the maintenance activity).

6 Cost of sales

	Group	
	Year ended 31 December 2018 £'000	**Year ended 31 December 2017 £'000**
Depreciation	**(152,606)**	(111,647)
Maintenance cost	**(32,958)**	(58,717)
Write down in the value of inventories	**(206)**	(206)
	(185,770)	(170,570)

7 Finance income

	Group	
	Year ended 31 December 2018 £'000	**Year ended 31 December 2017 £'000**
Bank interest	**2,194**	840

Finance income represents income on financial assets carried at amortised cost.

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

8 Finance expense

	Group Year ended 31 December 2018 £'000	Group Year ended 31 December 2017 £'000
Interest payable to Eversholt UK Rails Limited	**(47,891)**	(25,586)
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	**-**	(22,437)
Profit participating preference share dividend	**(353)**	(501)
Interest payable on derivatives	**(15,834)**	(16,161)
Interest payable on bank loans	**-**	(1,552)
Interest payable on bonds	**(83,431)**	(74,731)
Other finance costs	**(2,371)**	(2,064)
Unwinding of capitalised borrowing costs	**(2,598)**	(10,105)
	(152,478)	(153,137)

Finance expenses represent interest charged in relation to financial liabilities carried at amortised cost except for interest payable on interest rate swaps which will be carried at fair value through profit and loss (except where there is a hedge relationship – see note 3.8 (Derivatives and hedge accounting))

9 Administrative expense

Administrative expense includes:

	Group Year ended 31 December 2018 £'000	Group Year ended 31 December 2017 £'000
Foreign exchange gain/(loss)	**384**	(5)
Depreciation – other assets	**(346)**	(318)
Defined contribution pension costs	**(756)**	(735)
Fees payable to the Company's auditor for the audit of the Group's annual financial statements	**(325)**	(227)
Fees payable to the Company's auditor		
- for non-audit assurance services	**-**	(54)

10 Staff numbers and costs

The average number of persons employed by the Group (including Directors of the Company and of its subsidiaries) during the year was as follows:

	Group Year ended 31 December 2018 Number	Group Year ended 31 December 2017 Number
Directors	**3**	3
Operations	**63**	64
Administration	**50**	43
	116	110

	Group Year ended 31 December 2018 £'000	Group Year ended 31 December 2017 £'000
Wages and salaries	**(11,474)**	(10,464)
Social security costs	**(1,430)**	(1,336)
Contributions to defined contribution pension scheme	**(756)**	(735)
Defined benefit pension scheme service cost	**(359)**	(412)
	(14,019)	(12,947)

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

11 Directors' emoluments

	Group Year ended 31 December 2018 £'000	Group Year ended 31 December 2017 £'000
Directors' emoluments for services to the Group	**(2,106)**	(1,969)
Reimbursement of expenses	**-**	(2)
	(2,106)	(1,971)

The emoluments of the highest paid Director, including benefits in kind were £983,531 (2017: £923,928). The accrued pension contributions paid by the Group in respect of the highest paid Director for the year were £nil (2017: £nil). None of the Directors has any share options or interests in the share capital of the Company.

12 Income tax credit/(charge)

	Note	Group Year ended 31 December 2018 £'000	Group Year ended 31 December 2017 £'000
Current tax			
UK Corporation tax			
- On current year profit		**396**	799
- On prior years' profit		**5,103**	(852)
		5,499	(53)
Deferred tax			
Origination and reversal of temporary differences	*17*	**(5,752)**	(15,754)
Change in tax rates	*17*	**700**	2,368
Adjustment in respect of prior year	*17*	**19**	534
		(5,033)	(12,852)
Income tax credit/(charge)		**466**	(12,905)

The UK tax rate applying to the profits was 19% (2017: 19.25%).

The following table reconciles the tax credit/(charge) which would apply if all profits had been taxed at 19% (2017: 19.25%).

	Group Year ended 31 December 2018 £'000	Group Year ended 31 December 2017 £'000
Profit before tax	**30,469**	50,271
Taxation at corporation tax rate 19% (2017: 19.25%)	**(5,789)**	(9,677)
Change in tax rates	**700**	2,368
Prior years adjustment	**5,122**	(318)
Non-taxable income	**3,084**	1,660
Permanent tax differences	**(22)**	(6,938)
Other tax attribute unrecognised	**(2,629)**	-
Income tax credit/(charge)	**466**	(12,905)

12 Income tax charge (continued)

In addition to the amount charged to the Income statement, the aggregate amount of current and deferred tax relating to components of other comprehensive income, resulted in a £9,000 gain recognised in total comprehensive income (2017: £1,452,000 loss).

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

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

13 Property, plant and equipment

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
Cost			
Balance at 1 January 2017	3,570	2,618,851	2,622,421
Additions	177	248,555	248,732
Disposals	-	-	-
Balance at 31 December 2017	3,747	2,867,406	2,871,153
Additions	**203**	**261,441**	**261,644**
Disposals	**(462)**	**(4,735)**	**(5,197)**
Balance at 31 December 2018	**3,488**	**3,124,112**	**3,127,600**
Depreciation			
Balance at 1 January 2017	2,644	747,381	750,025
Charge for the year	318	111,647	111,965
Disposals	-	-	-
Balance at 31 December 2017	2,962	859,028	861,990
Charge for the year	**346**	**152,606**	**152,952**
Disposals	**(452)**	**(4,725)**	**(5,177)**
Balance at 31 December 2018	**2,856**	**1,006,909**	**1,009,765**
Carrying value at 31 December 2018	**632**	**2,117,203**	**2,117,835**
Carrying value at 31 December 2017	785	2,008,378	2,009,163

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 Group's borrowings attributable to the acquisition of rolling stock, see note 22 for more details.

Other assets relate to equipment, fixtures and fittings.

The depreciation charge on rolling stock and other railway assets is included within cost of sales in the Income statement. The depreciation on other assets is included in administrative expense.

2018 additions includes non-cash transfers from Other comprehensive income of £2,239,888, Bank loan capitalised interest of £97,304 and Bond capitalised interest of £14,959,869.

All rolling stock and other railway assets, unless off lease, are subject to operating lease arrangements.

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

14 Finance lease receivables

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

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

The Group has entered into a finance leasing arrangement for one of its depots. This lease is due to expire in 6 years' time.

Finance lease receivable balances are secured over the depot. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

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

The maximum exposure to credit risk of finance lease receivables for the current and prior periods is the carrying amount. The finance lease receivables are not past due and not impaired in the current or prior year.

15 Trade and other receivables

	Group	
	2018	**2017**
	£'000	**£'000**
Current		
Trade receivables	**2,730**	11,847
Contract assets	**16,363**	30,093
Other receivables	**2,118**	609
	21,211	42,549

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

16 Derivative financial instruments

31 December 2018	Notional Amount £'000	Fair Value Amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Non-current assets			
Interest rate swap contracts	46,000	1,779	-
FX forward contract – hedge accounted	193,786	21,519	(6,389)
	239,786	23,298	(6,389)
Non-current liabilities			
Interest rate swap contracts	724,895	(107,923)	-
Interest rate swap contracts – hedge accounted	300,000	(20,312)	3,602
	1,024,895	(128,235)	3,602
Total derivative financial instruments	1,264,681	(104,937)	2,787

31 December 2017	Notional Amount £'000	Fair Value Amount £'000	Change in fair value used for calculating hedge ineffectiveness £'000
Non-current assets			
Interest rate swap contracts	165,296	6,294	-
FX forward contract – hedge accounted	280,680	27,908	7,645
	445,976	34,202	7,645
Non-current liabilities			
Interest rate swap contracts	429,296	(127,557)	-
Interest rate swap contracts – hedge accounted	300,000	(23,914)	(8,570)
	729,296	(151,471)	(8,570)
Total derivative financial instruments	1,175,272	(117,269)	(5,571)

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

16.1 Foreign exchange forward contracts

During the year the Group 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.

Foreign exchange forward contracts are expected to mature with the following profile

Maturity	Notional Value £'000
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 can be attributed 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.

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

16 Derivative financial instruments (continued)

16.1 Foreign exchange forward contracts (continued)

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

Movement in fair value of Derivative financial instruments

Group

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as 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 as at 31 December 2018	**21,519**	**-**	**21,519**
Balance as at 1 January 2017	20,416	(153)	20,263
Unrealised loss through the income statement			
- Hedge ineffectiveness	(20)	-	(20)
Unrealised gain through other comprehensive income	7,512	153	7,665
Balance as at 31 December 2017	27,908	-	27,908

As at 31 December 2018, the designated hedges were deemed to be highly effective and the fair value asset of the foreign exchange forward contracts was £21,518,735 (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 in 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 of the hedged capital expenditure.

Movement in Hedging reserve

Group

	Current hedge accounted £'000	Terminated hedge accounted £'000	Total £'000
Balance as at 1 January 2018	**(23,052)**	**(3,303)**	**(26,355)**
Transfer between categories	**(153)**	**153**	**-**
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	**(718)**	**(162)**	**(880)**
Balance as at 31 December 2018	**(19,549)**	**(2,510)**	**(22,059)**
Balance as at 1 January 2017	(16,817)	(3,569)	(20,386)
Unrealised gain through other comprehensive income	(7,512)	(153)	(7,665)
Release to property, plant & equipment	-	473	473
Income tax on other comprehensive income	1,277	(54)	1,223
Balance as at 31 December 2017	(23,052)	(3,303)	(26,355)

16 Derivative financial instruments (continued)

16.2 Interest rate swap contracts

In 2017 the Group entered into two new swap contracts to hedge its interest rate risk exposure. 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, the Group'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 where actual funding profiles were different to those originally expected.

All of the interest rate swaps 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).

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

Movement of fair value in Derivative financial instruments

Group	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				
- Hedge ineffectiveness	**-**	**(186)**	**-**	**(186)**
- Other	**15,119**	**-**	**-**	**15,119**
	15,119	**(186)**	**-**	**14,933**
Unrealised 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				
- Hedge ineffectiveness	-	(84)	-	(84)
- Other	15,687	-	-	15,687
	15,687	(84)	-	15,603
Realised gain through the Income statement				
- Hedge ineffectiveness	-	-	285	285
			285	285
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)

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

16 Derivative financial instruments (continued)

16.2 Interest rate swap contracts (continued)

Movement in Hedging reserve

Group

	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 contracts held with the same counterparties.

At 31 December 2018, the Group 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.

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.

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.

17 Deferred tax

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

	Group	
	2018 £'000	2017 £'000
Deferred tax liabilities	**81,990**	78,298
Deferred tax assets	**(29,189)**	(30,521)
	52,801	47,777

In assessing the recoverability of deferred tax assets, the Group considers the extent to which it is probable that there are 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 Group has regard to 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.

Other tax attributes - The Corporate Interest Restriction ("CIR") rules were introduced on 1 April 2017 and are contained within Part 10 of Taxation (International Other Provisions) Act 2010. In 2018, the CIR rules have resulted in a disallowance in the Group which has created a tax attribute which has been recognised to the extent that the Group expects to have sufficient interest allowance in subsequent periods.

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

17 Deferred tax (continued)

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

	Capital Allowances £000's	Provision £000's	Fair value of derivatives £000's	Retirement benefit obligations £000's	Prior year adjustments £000's	Other tax attributes £000's	Total £000's
At 1 January 2017	60,339	(531)	(25,320)	(1,015)	-	-	33,473
Charge/(credit) to Income Statement	12,906	(88)	3,004	(68)	(534)	-	15,220
Charge to other comprehensive income	-	-	26	466	-	-	492
Effect of change in tax rate:							
- Income Statement	(2,033)	9	(351)	7	-	-	(2,368)
- Other comprehensive income	-	-	1,009	(49)	-	-	960
At 1 January 2018	71,212	(610)	(21,632)	(659)	(534)	-	47,777
Charge/(credit) to Income Statement	**4,770**	**(65)**	**2,837**	**(49)**	**(19)**	**(1,741)**	**5,733**
Charge to other comprehensive income	**-**	**-**	**(84)**	**84**	**-**	**-**	**-**
Effect of change in tax rate:							
- Income Statement	**(596)**	**7**	**(299)**	**5**	**-**	**183**	**(700)**
- Other comprehensive income	**-**	**-**	**-**	**(9)**	**-**	**-**	**(9)**
At 31 December 2018	**75,386**	**(668)**	**(19,178)**	**(628)**	**(553)**	**(1,558)**	**52,801**

18 Investments in subsidiary

	Group 2018 £'000	Group 2017 £'000
Cost at 31 December	-	2,835

The investment represents the investment in Eversholt Rail (365) Limited.

The change in the carrying value of £2,834,620 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.

The subsidiary undertakings of the Company at the end of the reporting period were:

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2018	Ownership Percentage 2017
Eversholt Investment Limited	Ordinary Shares	Ireland**	Investment	100	100
European Rail Finance Holdings Limited*	Ordinary Shares	Ireland**	Investment	100	100
European Rail Finance Limited*	Ordinary Shares	Ireland**	Leasing	100	100
Eversholt Rail Leasing Limited*	Ordinary Shares	England***	Leasing	100	100
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
Eversholt Finance Holdings Limited*	Ordinary Shares	England***	Investment	100	100

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

18 Investments in subsidiary

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2018	Ownership Percentage 2017
Eversholt Funding plc*	Ordinary Shares	England***	Financing	100	100
European Rail Finance (2) Limited*	Ordinary Shares	Ireland**	Investment	100	100

* Indirect subsidiaries
** Registered office: Newmount House, 22-24 Mount Street Lower, Dublin 2, Ireland
*** Registered office: 210 Pentonville Road, London, N1 9JY

The results of Eversholt Rail (365) Limited are excluded from the consolidation.

19 Inventory

	Group 2018 £'000	Group 2017 £'000
Rolling stock spares	736	942

Write down in the value of inventories recognised within cost of sales in the Consolidated income statement is an expense amounting to £206,382 (2017: £206,382). Stock is measured at the lower of cost and net realisable value.

20 Cash and cash deposits

Cash and cash deposits are analysed as:

	Group 2018 £'000	Group 2017 £'000
Cash	124,716	14,605
Cash demand deposits	70,000	80,000
Cash and cash equivalents	194,716	94,605
Short-term deposits	30,000	250,000
Cash and cash deposits	224,716	344,605

Within cash and cash equivalents there is a deposit of £2,600,000 (2017: £2,600,000) which is restricted as it provides security for the Profit Participating Shares issued by a subsidiary. £500,000 of cash and cash equivalents (2017: £500,000) is restricted cash in line with the terms of an agreement with the security trustee for the Group's secured creditors.

21 Trade and other payables

	Group 2018 £'000	Group 2017 £'000
Trade payables	13,244	11,667
Other payables	-	6,333
Lease rentals received in advance	9,812	10,829
Maintenance, acquisition and administrative accruals	31,247	29,578
Interest accrual	359	592
	54,662	58,999

22 Borrowings

	Group 2018 £'000	Group 2017 £'000
Current		
Interest accrued	**21,266**	21,151
Transaction costs	**(646)**	(617)
	20,620	20,534
Non-current		
Bonds	**1,940,000**	1,940,000
Other loan	**5,883**	5,786
Transaction costs	**(5,021)**	(5,286)
Profit Participating Shares	**2,500**	2,500
Loan from Eversholt UK Rails Limited	**340,562**	340,562
	2,283,924	2,283,562
	2,304,544	2,304,096

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

All Senior lenders are secured against substantially all of the Group's assets by way of fixed and floating charges. The security is held by The Law Debenture Trust Corporation plc (in its capacity as Security Trustee). The Group is not permitted to create additional security over its assets apart from in limited circumstances that have been agreed with its financiers.

None of the Bonds is puttable.

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

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

The Profit Participating Shares ("PPS") carry a right to quarterly dividends. The PPS dividend has two parts. The first part confers a right to a LIBOR based return. The second part confers a right to 0.1% of post-tax profits arising in the issuing company during the reference period. The PPS are classified as a non-current liability as the holders of these shares have a fixed entitlement to a dividend.

The loan from Eversholt UK Rails Limited is unsecured and carries a fixed rate of interest. The Group's rights under this subordinated loan agreement (including its right to repayment) are subject to the terms of the Financing Documents.

22 Borrowings (continued)

Maturity of borrowings

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

	Group 2018 £'000	Group 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	**77,312**	348,643
In more than five years	**1,911,633**	1,940,205
	2,288,945	2,288,848

23 Reconciliation of assets and liabilities arising from 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 (365) Limited	13,695	(92)	(6,129)	**7,474**
Bond interest accrued	20,411	98,391*	(98,375)	**20,427**
Swap Interest accrued	740	15,834	(15,735)	**839**
Eversholt UK Rails Limited	-	47,891	(47,891)	**-**
Profit Participating Shares	33	353	(271)	**115**
	34,879	162,377	(168,401)	**28,855**
Assets				
Capitalised transaction costs	(5,903)	2,598	(2,362)	**(5,667)**

*Bond interest excludes capitalised interest of £14,959,869 transferred to Property, plant and equipment (see note 13).

24 Other liabilities

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

	Group 2018 £'000	Group 2017 £'000
Current	**4,485**	3,142
Non-current	**116,323**	122,361
	120,808	125,503

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

25 Provisions

	Group	
	2018	2017
Current	£'000	£'000
Overheads	**35**	35

Provision for overheads relates to dilapidations on office buildings.

	Total 2018 £'000	Total 2017 £'000
Balance at beginning of the year	**35**	35
Additions	-	-
Utilised	-	-
Balance at the end of the year	**35**	35

26 Share capital

	Company	
	2018 £	2017 £
Authorised		
102 Ordinary shares of £1 each (2017: 102)	**102**	102
Allotted, called up and fully paid		
102 Ordinary shares of £1 each (2017: 102)	**102**	102

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

27 Capital commitments

In respect of capital expenditure:

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

The above represents all capital commitments.

28 Dividends

For the year ended 31 December 2018 dividends of £40,100,000 were paid (2017: £43,040,992).

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

29 Financial instruments

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

Group

31 December 2018	Note	Carrying amount	Fair Value Level 1	Level 2	Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	16	23,298	-	23,298	-
Loans and receivables					
- Finance lease receivables	14	6,333			
- Trade and other receivables	15	21,211			
Cash and cash equivalents	20	224,716			
Total Financial assets		275,558			
Financial liabilities					
Held to maturity financial instruments					
- Derivative financial instruments	16	128,235	-	128,235	-
Non-derivative instruments					
- Publicly traded bonds	22	1,500,000	1,688,189	-	-
- Fixed rate borrowings	22	340,000	-	343,153	-
- Other borrowings	22	470,211			
- Trade and other payables	21	54,662			
Total Financial liabilities		2,493,108			
Total financial instruments		(2,217,550)			

Group

31 December 2017	Note	Carrying amount	Fair Value Level 1	Level 2	Level 3
		£'000	£'000	£'000	£'000
Financial assets					
Fair value through profit or loss					
- Derivative financial instruments	16	34,202	-	34,202	-
Loans and receivables					
- Finance lease receivables	14	7,198			
- Trade and other receivables	15	42,549			
Cash and cash equivalents	20	344,605			
Total Financial assets		428,554			
Financial liabilities					
Held to maturity financial instruments					
- Derivative financial instruments	16	151,471	-	151,471	-
Non-derivative instruments					
- Publicly traded bonds	22	1,500,000	1,790,147	-	-
- Fixed rate borrowings	22	340,000	-	364,439	-
- Other borrowings	22	469,999			
- Trade and other payables	21	58,999			
Total Financial liabilities		2,520,469			
Total financial instruments		(2,091,915)			

Carrying value is regarded as a reasonable approximation of fair value, when this is not provided in the above table.

30 Retirement benefit obligations

30.1 General description of scheme

Final salary pension

Eversholt Rail Limited a group undertaking, provides a defined benefit pension scheme to some employees. Eversholt Rail Limited Section (the "Section") is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme. The Section is governed by a trustee board, which is independent of Eversholt Rail Limited.

The Section is a shared cost arrangement whereby Eversholt Rail Limited is only responsible for a share of the cost. The figures reported below therefore represent only Eversholt Rail Limited's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

Employer contributions were 19.10% of Section pay for the period to 30 June 2018 and 19.60% for the period to 31 December 2018 of Section Pay (2017: 19.1% for the year).

The Section is open to new members transferring in from other sections of the Railways Pension Scheme.

Eversholt Rail Limited is exposed to a number of risks relating to the Section including assumptions not being borne out in practice. The most significant risks are as follows:

- Asset volatility: There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's defined benefit obligation ("DBO"). The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term.
- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.
- Inflation risk: The majority of the Section's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.
- Contribution rate: The Scheme Rules give the Scheme Actuary the power to set the contribution rates for Eversholt Rail Limited if no agreement can be reached between the Trustee and that company.

30.2 Membership data

	31 December 2018	31 December 2017
Active members		
Number	**15**	17
Number with PRP included	**10**	11
Annual payroll (£'000)	**1,191**	1,294
PRP included (£'000)	**40**	44
Average age	**51.2**	50.1
Deferred members		
Number	**50**	50
Total deferred pensions (£'000)	**389**	360
Average age	**53.8**	53.1
Pensioner members (including dependants)		
Number	**49**	49
Estimated annual pension payroll (£'000)	**1,220**	1,181
Average age	**67.2**	66.3

30 Retirement benefit obligations (continued)

30.3 Summary of assumptions

	31 December 2018 %pa	31 December 2017 % pa
Discount rate	**2.65**	2.50
Price inflation (RPI measure)	**3.20**	3.20
Increases to deferred pensions (CPI measure)	**2.20**	2.20
Pension increases (CPI measure)	**2.20**	2.20
Salary increases *	**3.20**	3.20

*plus 0.4% pa promotional salary scale.

Section assets	Value at 31 December 2018 £'000	Value at 31 December 2017 £'000
Growth assets	**23,724**	26,821
Government bonds	**11,890**	11,491
Non-government bonds	**4,530**	1,765
Other assets	**51**	318
	40,195	40,395

The assumed average expectation of life in years at age 65 is as follows:

	31 December 2018	31 December 2017
Male currently age 65	**23.0**	23.0
Male currently age 45	**24.8**	24.8
Female currently age 65	**23.8**	23.7
Female currently age 45	**25.6**	25.6

30.4 Defined benefit liability at end of year

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Defined benefit liability at end of year		
Active members	**8,491**	8,388
Deferred members	**10,791**	11,049
Pensioner members (incl. dependants)	**27,064**	27,414
Total DBO	**46,346**	46,851
Value of assets at end of year	**(40,195)**	(40,395)
Funded status at end of year	**6,151**	6,456
Adjustment for the members' share of deficit	**(2,460)**	(2,582)
Net defined benefit liability at end of year	**3,691**	3,874

30 Retirement benefit obligations (continued)

30.5 Reconciliation of net defined benefit liability

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Opening net defined benefit liability	**3,874**	5,968
Employer's share of pension expense	**454**	559
Employer contributions	**(196)**	(201)
Total gain recognised in Statement of comprehensive income	**(441)**	(2,452)
Closing net defined benefit liability	**3,691**	3,874

30.6 Pension charge

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Employer's share of service cost	**321**	375
Employer's share of administration costs	**38**	37
Total employer's share of service cost	**359**	412
Employer's share of net interest on net defined benefit liability	**95**	147
Employer's share of pension expense	**454**	559

30.7 Other comprehensive income

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Loss/(gain) due to liability experience	**171**	(370)
Gain due to liability assumption changes	**(735)**	(1,124)
Return on plan assets less/(greater) than discount rate	**123**	(958)
Total gain recognised in Statement of comprehensive income	**(441)**	(2,452)

30.8 Reconciliation of DBO

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Opening DBO	**46,851**	48,922
Service Cost	**530**	619
Interest Cost	**1,156**	1,206
Loss/(gain) on DBO - experience	**258**	(644)
Gain on DBO – financial assumptions	**(1,225)**	(1,874)
Actual benefit payments	**(1,224)**	(1,378)
Closing DBO	**46,346**	46,851

30 Retirement benefit obligations (continued)

30.9 Reconciliation of value of assets

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Opening value of Section assets	**40,395**	38,976
Interest income on assets	**997**	960
(Loss)/return on plan assets greater than discount rate	**(204)**	1,597
Employer contributions	**196**	201
Employee contributions	**98**	100
Actual benefit payments	**(1,224)**	(1,378)
Administration costs	**(63)**	(61)
Closing value of Section assets	**40,195**	40,395

Tables 30.8 and 30.9 above show the movement in the assets and liabilities of the section as a whole. Some of the figures therefore differ from those in the remaining disclosures which reflect the Group's share of the assets and liabilities associated with the section.

30.10 DBO sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2018	Sensitivity	Approximate increase in DBO £'000
Discount rate	-0.5% p.a.	**4,300**
Price inflation (CPI measure)*	+0.5% p.a.	**4,200**
Salary increases	+0.5% p.a.	**300**
Life expectancy	+1 year	**1,600**

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

The sensitivity figures above are as at 31 December 2018 and based on the DBO noted in table 30.4.

The Section is subject to a full funding actuarial valuation on a triennial basis. The funding valuation at 31 December 2016 indicated a funding surplus and so no deficit contributions are currently being paid. Employer contributions for the period to 30 June 2018 were 19.1% of Section Pay. Subsequent employer contributions, for the period to 30 June 2021, are 19.6% of Section pay. Future rates are, however, subject to review pending the finalisation of the formal actuarial valuation as at 31 December 2019.

The discounted mean term of the Section's liabilities is 18 years. Expected employer contributions for 2019 is £200,000.

31 Risk management

The Group 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. In addition, the Group 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 3.16.

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.

31.1 Residual value risk

One of the key drivers of the Group's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the current lease terms (the "residual values") differ

31 Risk management (continued)

31.1 Residual value risk (continued)

from those projected at the inception of the leases. The Group regularly monitors residual value risk exposure by considering the re-leasing potential of its assets. Provision is made to the extent that the carrying values of leased assets exceed the recoverable value.

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

The Group's asset engineering team regularly visits the operating depots for the purpose of vehicle inspection and technical investigation. The Group has an excellent knowledge of the current condition of the fleet.

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 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 Group's exposure to residual value risks or the manner in which these risks are managed and measured.

31.2 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 Group consists of debt and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

31.3 Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. The Group'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, to fulfil commitments and to meet obligations under lending and derivative financial instruments.

The Group 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 Group'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 Group'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 Group 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.

31 Risk management (continued)

31.3 Credit risk management (continued)

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, contract assets and lease receivables under IFRS 9. In relation to other financial assets, the Group 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 Group'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 Group 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 Group 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 Group and existence of previous financial difficulties).

The Group's principal exposure to credit risk as at 31 December 2018 amounts to the balance of Trade and other receivables, Contract assets as disclosed in note 15, Finance lease receivables as disclosed in note 14, Derivative financial instruments assets disclosed in note 16 and Cash and cash deposits as disclosed in note 20. The carrying amounts of financial assets and contract 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 Group 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.

The Group will write off a financial asset where there is no realistic prospect of the financial asset being recovered. In light of the above and having regards to requirement of IFRS 9, the Group considers that no ECL is required at 1 January 2018 or at 31 December 2018.

31.4 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group 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 group undertakings to borrow funds from other group undertakings to meet any shortfall. 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.

Only the derivative financial instruments are measured subsequent to initial recognition at fair value. All derivative financial instruments are grouped into level two, based on the degree to which the fair value is observable. Level two fair value measurements are those derived from inputs other than quoted prices that are observable from active markets either directly or indirectly.

Of the cash and cash deposits, £2,600,000 relates to cash held on deposit as security for the holders of the PPS in Eversholt Investment Limited (£2,600,000) and £500,000 for the trustees for the senior debt providers (£500,000).

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

31 Risk management (continued)

31.4 Liquidity risk management (continued)

Undiscounted cash flows in respect of financial assets and financial liabilities are analysed below by their contractual due date:

Group

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2018						
Financial assets						
Loans and receivables						
Finance lease receivables	6,333	7,828	-	1,381	5,525	922
Trade and other receivables	21,211	21,211	-	21,211	-	-
Derivative financial instrument	23,298	28,118	-	21,787	4,498	1,833
Cash and cash deposits	224,716	224,716	191,616	30,000	-	3,100
	275,558	281,873	191,616	74,379	10,023	5,855
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	128,235	144,452	-	16,932	59,317	68,203
Other financial liabilities						
- Trade and other payables	54,662	54,662	-	54,662	-	-
- Borrowings	2,318,239	2,912,726	13,695	97,040	354,222	2,447,769
	2,501,136	3,111,840	13,695	168,634	413,539	2,515,972
Total financial instruments	(2,225,578)	(2,829,967)	177,921	(94,255)	(403,516)	(2,510,117)

Group

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2017						
Financial assets						
Loans and receivables						
Finance lease receivables	7,198	11,147	-	1,403	7,442	2,302
Trade and other receivables	42,549	42,549	-	42,549	-	-
Derivative financial instrument	34,202	14,979	-	3,415	11,564	-
Cash and cash deposits	344,605	344,605	91,505	250,000	-	3,100
	428,554	413,280	91,505	297,367	19,006	5,402
Financial liabilities						
Fair value through profit or loss						
- Derivative financial instruments	151,471	81,798	-	16,978	64,820	-
Other financial liabilities						
- Trade and other payables	58,999	58,999	-	58,999	-	-
- Borrowings	2,309,999	3,128,307	-	98,908	618,565	2,410,834
	2,520,469	3,269,104	-	174,885	683,385	2,410,834
Total financial instruments	(2,091,915)	(2,855,824)	91,505	122,482	(664,379)	(2,405,432)

31.5 Market risk

31.5.1 Foreign exchange risk

The Group hedges against foreign exchange risk on its EUR denominated capital expenditure as described in note 16.

31 Risk management (continued)

31.5 Market risk (continued)

31.5.2 Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at fixed and floating interest rates. The risk is managed by the Group to maintain an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with the hedging strategy.

	Group	
	2018	**2017**
	£'000	**£'000**
Fixed rate instruments		
Financial liability	**(2,188,945)**	(2,188,848)
Variable rate instruments		
Financial assets	**6,333**	7,198
Financial liability	**(100,000)**	(100,000)
	(93,667)	(92,802)

31.5.3 Interest rate sensitivity analysis

A 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £820,000 (2017: £662,729) and an increase in cash deposit interest received of £1,785,721 (2017: £970,736). The interest rate sensitivity analysis has been prepared using the present value of cash flows using different interest rates. The sensitivity analysis is applied to the borrowing/deposit rate and performed on the monthly balance of the relevant financial instrument.

A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in negative fair value adjustment loss of £632,280 (2017: £606,312) in derivative financial instruments.

31.5.4 Approach to hedging

Consistent with prior years, the Group uses interest rate swaps and foreign exchange contracts to manage its interest rate and foreign currency risk.

The Group holds foreign exchange forward contracts to hedge the variability in sterling cash flows associated with committed EUR denominated capital expenditure.

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 consistent with the principal, maturities and reference interest rates included in the related funding.

Interest rate swaps and forward foreign exchange contracts are designated as part of hedging relationships upon their inception. The Group 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 Group 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:

31 Risk management (continued)

31.5.4 Approach to hedging (continued)

- 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 principle of the hedge item, actually hedged, and the principle of the hedging instrument.

Once established, hedging arrangements will generally continue to the maturity of related borrowings or 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.

32 Operating lease arrangements

The Group as lessor:

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

	Group	
	2018	**2017**
	£'000	**£'000**
Within one year	**262,189**	316,530
2-5 years	**342,862**	496,096
Over 5 years	**78,491**	140,055
	683,542	952,681
Aggregate operating lease rentals receivable in the year	**309,824**	305,066

The Group as lessee:

The Group has commitments under operating leases in respect of land and buildings as follows:

	Group	
	2018	**2017**
	£'000	**£'000**
Within one year	**970**	952
2-5 years	**3,865**	3,823
Over 5 years	**2,567**	3,579
	7,402	8,354

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

	Group	
	2018	**2017**
	£'000	**£'000**
Buildings		
Aggregate operating lease rentals paid in the year	**684**	**670**
Land		
Minimum lease payments under operating leases recognised as an expense in the year	**(268)**	(268)
Sub-lease payments received	**268**	268
	-	-

For the purpose of presentation in the Income statement, the sublease rentals are recorded net of rentals payable. Outstanding commitments for future minimum lease receipts under the subleases, are equivalent to the Company's commitments as lessee of land as set out above.

33 Related-party transactions

33.1 Identity of related parties

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 UK Rails Limited (prior to 22 May 2017 Eversholt Investment Group (Luxemburg) Sarl). 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 Holding Limited may be obtained from the following address:
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

The Group has a related party relationship with its subsidiary Eversholt Rail (365) Limited, the Group's interest in which is not consolidated in these financial statements.

33.2 Transactions with related parties

The loan with Eversholt UK Rails Limited is more fully described in note 22. Interest on this loan is disclosed in note 8.

The Group received fees of £9,160,222 (2017: £11,685,256) during the year for the provision of maintenance procurement and management services to Eversholt Rail (365) Limited. Amounts owed by and payments made to Eversholt Rail (365) Limited are shown in the Consolidated statement of financial position and Consolidated statement of cash flows respectively.

33.2 Transactions with related parties

The Group was charged a management service fee of £120,000 (2017: £10,000) by Eversholt UK Rails Limited during the year.

33.3 Remuneration of key management personnel

	Group	
	2018	**2017**
	£'000	**£'000**
Short-term employment benefits	**1,689**	1,635
Other long-term employment benefits	**406**	320
	2,095	1,955

Directors' emoluments are disclosed in note 11.

34 Contingent liabilities

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

35 Subsequent events

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