

European Rail Finance Limited

Annual Financial Statements
for the year ended 31 December 2014

Registered No: IR443563

Annual Financial Statements

for the year ended 31 December 2014

Contents	Page
Directors' report	2
Statement of Directors' responsibilities	4
Independent Auditor's report	5
Income statement	7
Statement of comprehensive income	7
Statement of financial position	8
Statement of cash flows	9
Statement of changes in equity	10
Notes to the annual financial statements	11

Directors' report

for the year ended 31 December 2014

Principal activities

European Rail Finance Limited (the "Company"), has continued with its principal activity of owning rolling stock and leasing it to operators in the UK. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 22.

Business review

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

The business is funded principally by other group undertakings. The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group. These objectives together with an analysis of the exposure to such risks are set out in note 20 of the financial statements.

The principal business risk for the Company is in respect of residual value of its operating lease assets. The Company seeks to maximise the reletting potential, and therefore the residual value, of its assets by active management of the technical and commercial utility of these assets. An assessment is carried out by management every six months of the commercial value of all operating lease assets, measured as the present value of the net anticipated cashflows arising from ownership over the life of the assets. This assessment provides a basis for measuring the success of the Company 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.

Performance

The results for the Company are set out in the income statement on page 7.

The key performance indicator used by management in assessing the performance of the Company is actual cash flows compared to the planned cash flows. Monthly management accounts are prepared and reviewed by the Directors.

Future developments

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

Dividends

On 30 January 2014, 31 March 2014, 27 June 2014 and 22 December 2014 the Directors declared dividends of £235,000,000, £12,000,000, £3,000,000 and £22,000,000 respectively (2013: £32,000,000). Dividend payments will be reflected in the financial statements in the period in which they are declared.

Going concern basis

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

Directors' report (continued)

for the year ended 31 December 2014

Directors

The Directors who served during the year were as follows:

B T Hayden

C Cullen

M Walsh

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.

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the Eversholt Rail Group to provide the necessary capital resources which are managed on a group basis.

It is the Group's objective to maintain a strong capital base to support the development of its business.

Disclosure of information to the auditor

Each person who is a director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Accounting records

The Directors believe that they have complied with the requirements of section 202 of the Companies Act, 1990 with regard to books of account by employing a service provider, which has appropriate expertise and provides adequate resources to the financial function. The books of account of the Company are maintained primarily by Eversholt Rail (UK) Limited, 210 Pentonville Road, London N1 9JY.

Auditor

In accordance with Section 160(2) of the Companies Act 1963, the Auditor, KPMG Chartered Accountants will continue in office.

Signed on behalf of the Board by:



C Cullen
Director

Newmount House
22-24 Mount Street Lower
Dublin 2
Ireland



M Walsh
Director

25 February 2015

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

for the year ended 31 December 2014

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the financial statements in accordance with applicable Company Law and International Financial Reporting Standards ('IFRSs') as adopted by the EU. The Company's financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies' Acts 1963 to 2013.

These financial statements were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:



C Cullen
Director



M Walsh
Director

Registered Office:
Newmount House
22-24 Mount Street Lower
Dublin 2
Ireland

Independent Auditor's report to the Members of European Rail Finance Limited for the year ended 31 December 2014

We have audited the financial statements of European Rail Finance Limited for the year ended 31 December 2014 which comprise Income statement, Statement of comprehensive income, Statement of financial position, Statement of cash flows, Statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ('IFRS') adopted by the European Union ('EU') as issued by the International Accounting Standards Board.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 4 the Directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The financial statements are in agreement with the books of account and, in our opinion, proper books of account have been kept by the company.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the company, as stated in the Statement of financial position are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

**Independent Auditor's report to the Members of European Rail Finance Limited
(continued)**

for the year ended 31 December 2014

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion the disclosures of Directors' remuneration and transactions specified by law are not made.



Paul Dobey

**for and on behalf of
KPMG**

Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place, IFSC, Dublin, Ireland

25 February 2015

Income statement

for the year ended 31 December 2014

	<i>Note</i>	2014 £'000	2013 £'000
Revenue			
Operating lease income	4	214,011	212,805
Other income		1,283	1,101
Cost of sales	5	(96,982)	(99,842)
Gross profit		118,312	114,064
Finance income	6	261	5,518
Finance expense	7	(70,662)	(76,326)
		47,911	43,256
Administrative expenses	8	(12,298)	(10,888)
Profit on disposal of property, plant and equipment		-	520
Profit before tax		35,613	32,888
Income tax charge	9	(4,452)	(4,111)
Profit for the year		31,161	28,777

There were no discontinued or discontinuing operations during the year.

The notes on pages 11 to 23 form an integral part of these financial statements

Statement of comprehensive income

for the year ended 31 December 2014

There has been no comprehensive income or expense other than the profit for the year as shown above (2013: nil).

The financial statements were approved by the board of Directors and authorised for issue on 25 February 2015. They were signed on its behalf by:



C. Cullen
Director



M Walsh
Director

Company registration number: IR443563

Statement of financial position

as at 31 December 2014

	<i>Note</i>	2014 £'000	2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	1,200,948	1,284,338
Current assets			
Loan receivable	12	-	145,761
Trade and other receivables	13	221	578
		221	146,339
Total assets		1,201,169	1,430,677
Liabilities and equity			
Current liabilities			
Trade and other payables	14	1,593	2,601
Deferred revenue	15	5,331	8,976
Borrowings	16	-	13,314
		6,924	24,891
Non-current liabilities			
Borrowings	16	1,061,495	1,036,131
Deferred tax liability	17	28,404	23,952
Deferred revenue	15	40,111	40,629
		1,130,010	1,100,712
Total liabilities		1,136,934	1,125,603
Equity			
Share capital	18	50,000	50,000
Capital contribution		-	100,000
Retained earnings		14,235	155,074
Total equity		64,235	305,074
Total equity and liabilities		1,201,169	1,430,677

The notes on pages 11 to 23 form an integral part of these financial statements.

The financial statements were approved by the board of Directors and authorised for issue on 25 February 2015. They were signed on its behalf by:


C Cullen
 Director


M Walsh
 Director

Company registration number: IR443563

Statement of cash flows

for the year ended 31 December 2014

	<i>Note</i>	2014 £'000	2013 £'000
Cash flow from operating activities			
Profit before tax		35,613	32,888
Adjustments for:			
Depreciation charge	5	96,939	99,770
Profit on disposal of property, plant and equipment		-	(520)
Operating cash flow before movement in working capital		132,552	132,138
- Decrease in trade and other receivables		357	9,109
- Decrease in trade and other payables		(1,008)	(1,120)
- (Decrease)/increase in deferred revenue		(4,163)	20,917
Net cash generated by operating activities		127,738	161,044
Cash flow from investing activities			
Acquisition of property, plant and equipment	11	(13,549)	(8,012)
Proceeds on disposal of property, plant and equipment		-	520
Net cash utilised in investing activities		(13,549)	(7,492)
Cash flow from financing activities			
Intercompany loans raised		1,061,495	96,525
Intercompany loans repaid		(1,049,445)	(284,540)
Amounts repaid by group entities		145,761	66,411
Dividends paid		(272,000)	(32,000)
Net cash utilised in financing activities		(114,189)	(153,604)
Net movement in cash and cash equivalents		-	(52)
Cash and cash equivalents at beginning of the year		-	52
Cash and cash equivalents at end of the year		-	-

Statement of changes in equity

for the year ended 31 December 2014

	Called up share capital £'000	Capital contribution £'000	Retained earnings £'000	Total shareholders' equity £'000
Balance at 1 January 2013	50,000	100,000	158,297	308,297
Profit for the year	-	-	28,777	28,777
Dividends paid	-	-	(32,000)	(32,000)
Balance at 31 December 2013	50,000	100,000	155,074	305,074
Profit for the year	-	-	31,161	31,161
Dividends paid	-	(100,000)	(172,000)	(272,000)
Balance at 31 December 2014	50,000	-	14,235	64,235

Notes to the annual financial statements

for the year ended 31 December 2014

1 General Information

European Rail Finance Limited (the "Company"), is a company incorporated in the Republic of Ireland under the Companies Act. The registered office of the Company is Newmount House, 22-24 Mount Street Lower, Dublin 2, Ireland.

2 Basis of Preparation

These financial statements are presented in £'000. In 2014, the financial statements have been converted from £ to £'000. All amounts have been rounded to the nearest thousand, unless otherwise indicated. In the opinion of the Directors, the conversion was required to become clearer to the reader of these financial statements.

2.1 Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared on the historical cost basis. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2014, there were no unendorsed standards effective for the year ended 31 December 2014 affecting these Company financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the year ended 31 December 2014 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

2.2 Standards and Interpretations issued by the IASB

During the year, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements. At 31 December 2014, a number of standards and amendments to standards have been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2014. The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- IFRS 14 Regulatory Deferral Accounts (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 Joint Arrangements (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (mandatory for the periods beginning on or after 1 January 2016).
- Amendments to IAS 27 Consolidated and Separate Financial Statements (2008) (mandatory for periods beginning on or after 1 January 2016).
- IFRS 15 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2017).
- IFRS 9 Financial Instruments (mandatory for periods beginning on or after 1 January 2018).

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

2 Basis of Preparation (continued)

2.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

3 Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been applied consistently to all periods presented in these financial statements.

3.1 Maintenance income and costs

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 of future periods are included in other creditors. When maintenance services are performed, the cost of which will be recovered under these arrangements only in future periods, the future recoverable amount is included in prepayments. Revenue from maintenance services rendered is recognised when the services are provided. In all cases maintenance service costs are expensed as incurred.

3.2 Fees and commission income

Income earned on the execution of a significant act is recognised as revenue when the act is completed. Income earned from the provision of services is recognised as revenue as the services are provided and income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Finance income'.

3.3 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 period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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

3.4 Income tax

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

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

3 Summary of significant accounting policies (continued)

3.4 Income tax (continued)

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

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period.

3.5 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 period. 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 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 35 years. Useful lives and residual values are reviewed annually and if there is indication of impairment a loss will be recognised to reduce the carrying value of the asset to its recoverable amount.

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

The depreciation charge is included in the Income statement.

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 income.

At each reporting date, the Company reviews the carrying value of its rolling stock and railway assets to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

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

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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

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

3.7 Financial instruments

3.7.1 Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL); 'held to maturity investments'; 'available for sale (AFS) financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets and financial liabilities are recognised in the Company's Statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

The Company holds the following classes of financial assets.

3.7.1.1 Loans and receivables

Loans and receivables include receivables originated by the Company which are not classified either as held for trading or designated at fair value. Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

3.7.1.2 Cash and cash equivalents

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

3.7.2 Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other' financial liabilities.

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

3.7.3 Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.3 Impairment of financial assets (continued)

Collectively assessed impairment losses are calculated on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified.

Financial assets are written off to the extent that there is no realistic prospect of recovery.

3.7.4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.8 Statement of cash flows

The Statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in intercompany transactions are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

3.9 Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

Dividends payable in relation to equity shares are recognised as a liability in the period in which they are declared.

3.10 Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

3.11 Use of assumptions and estimates

In the application of the Company's accounting policies, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

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

The critical judgement that management have made in the process of applying the Company's accounting policies that had the most significant effect on the amounts recognised in the financial statements is in respect of depreciation.

Depreciation is recognised so as to write off the cost of assets over their useful lives. In making their judgement of the useful life, the management have considered the effect of wear and tear and planned maintenance on the assets.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

3 Summary of significant accounting policies (continued)**3.12 Leases**

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

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

4 Operating lease income

	2014 £'000	2013 £'000
Rentals income from third parties	114,931	107,856
Rentals income from European Rail Finance (GB) Limited	99,080	104,949
	<u>214,011</u>	<u>212,805</u>

5 Cost of sales

	2014 £'000	2013 £'000
Depreciation	(96,939)	(99,770)
Maintenance cost	(43)	(72)
	<u>(96,982)</u>	<u>(99,842)</u>

In previous years intercompany Maintenance Procurement Contribution was classified as Maintenance costs. To be consistent with Group Financial Statements these amounts have been reclassified to Operating lease income. The reclassification has resulted in a reduction in 2013 operating lease income and cost of sales of £13,734,000.

6 Finance income

	2014 £'000	2013 £'000
Interest receivable from Eversholt Rail (UK) Limited	261	5,518

7 Finance expense

	2014 £'000	2013 £'000
Interest payable to Eversholt Funding plc	(5,114)	(67,201)
Interest payable to Eversholt Rail (UK) Ltd	(61,617)	-
Finance charges payable to Eversholt Funding plc	(2,695)	(7,903)
Other interest	(1,236)	(1,222)
	<u>(70,662)</u>	<u>(76,326)</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

8 Administrative expenses

Administrative expenses include the following:

	2014 £'000	2013 £'000
Management fee payable to Eversholt Rail (UK) Limited	(12,206)	(10,677)
Management fee payable to Eversholt Investment Limited	(60)	(180)
Fees payable to the company's auditor for the audit of the company's annual accounts	(16)	(16)
Fees payable to the company's auditor and its associates for other services		
- Taxation services	(8)	(17)
Foreign exchange (loss)/gain	(1)	2

The Company has no employees and hence no staff costs (2013: £nil). Certain Directors have been paid by another group undertaking. No specific charge has been made to the Company in this regard.

9 Income tax charge

	Note	2014 £'000	2013 £'000
Deferred tax			
Origination and reversal of temporary differences	17	<u>(4,452)</u>	<u>(4,111)</u>

The Irish corporation tax rate applying to the Company was 12.5% (2013: 12.5%). The following table reconciles the tax expense which would apply if all profits had been taxed at the Irish corporation tax rate:

	2014 £'000	2013 £'000
Taxation at corporation tax rate of 12.5% (2013: 12.5%)	(4,452)	(4,111)
Income tax expense	<u>(4,452)</u>	<u>(4,111)</u>

10 Dividends

For the year ended 31 December 2014 dividends of £272,000,000 were paid to European Rail Finance (2) Ltd (2013: £32,000,000).

11 Property, plant and equipment

	Rolling stock £'000
Cost	
Balance at 1 January 2013	1,925,312
Additions	8,012
Disposals	(74)
Balance at 31 December 2013	1,933,250
Additions	13,549
Disposals	-
Balance at 31 December 2014	<u>1,946,799</u>

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

11 Property, plant and equipment (continued)

Depreciation	
Balance at 1 January 2013	549,216
Charge for the year	99,770
Depreciation on disposals	(74)
Balance at 31 December 2013	648,912
Charge for the year	96,939
Depreciation on disposals	-
Balance at 31 December 2014	745,851
 Carrying value at 31 December 2014	 1,200,948
Carrying value at 31 December 2013	1,284,338

Rolling stock has been pledged to secure borrowings of the Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted in its ability to sell them.

12 Loans receivable

	2014	2013
	£'000	£'000
Eversholt Rail (UK) Limited	-	145,761

The loan to Eversholt Rail (UK) Limited was unsecured and was repayable on demand. Interest was charged at margin over GBP LIBOR. Eversholt Rail (UK) Limited repaid the loan in January 2014.

13 Trade and other receivables

	2014	2013
	£'000	£'000
Receivable no later than one year:		
Trade receivables	221	578

14 Trade and other payables

	2014	2013
	£'000	£'000
Trade Payables	203	105
Accruals	629	238
Rentals received in advance	761	2,258
	1,593	2,601

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

15 Deferred Revenue

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

	2014 £'000	2013 £'000
Current	<u>5,331</u>	<u>8,976</u>
Non-current	<u>40,111</u>	<u>40,629</u>

The deferred revenue arises in respect of the Company's obligations in respect of maintenance contracts in certain leases.

16 Borrowings

	Current £'000	Non-current £'000	Total £'000
31 December 2014			
Eversholt Rail (UK) Limited	-	<u>1,061,495</u>	<u>1,061,495</u>
31 December 2013			
Eversholt Funding plc	<u>13,314</u>	<u>1,036,131</u>	<u>1,049,445</u>

In 2014 the terms of intragroup funding arrangements were revised to more closely align with the terms of the Group's external financing. The intragroup loan with Eversholt Rail UK Limited is classified as non-current as it is repayable on 4 November 2018 (2013: the loans were unsecured and repayable in line with Eversholt Funding plc's own external debt). Borrowing entities may prepay and redraw loans until the repayment date. Interest on the loan is payable monthly at a floating rate, which substantially matches the rate of the group's senior debt, plus margin (2013: GBP LIBOR plus margin).

Intercompany loan with Eversholt Funding plc matched repayment terms of Eversholt Funding plc's own external debt, but was repaid during the year. Interest on that loan was charged at margin plus GBP LIBOR.

Maturity of borrowings

The maturity profile of the carrying amount of Company's non-current borrowings at 31 December 2014 was as follows:

	Eversholt Rail (UK) Ltd 2014 £'000	Eversholt Funding plc 2013 £'000
In more than one year but not more than two years	-	-
In more than two years but not more than five years	<u>1,061,495</u>	<u>83,211</u>
In more than five years	-	<u>952,920</u>
	<u>1,061,495</u>	<u>1,036,131</u>

17 Deferred tax

Leasing transactions temporary differences:

	2014 £'000	2013 £'000
Balance at the beginning of the year	23,952	19,841
Income statement charge	<u>4,452</u>	<u>4,111</u>
Balance at the end of the year	<u>28,404</u>	<u>23,952</u>

Leasing transactions temporary differences relate principally to accelerated capital allowances and depreciation.

Deferred tax has been calculated at 12.5% being the rate in force at 31 December 2014 (2013: 12.5%).

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

18 Share capital

	2014 £'000	2013 £'000
Authorised		
100,000,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid		
50,000,001 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

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

19 Capital commitments

In respect of capital expenditure:

	2014 £'000	2013 £'000
Authorised and contracted	<u>28,758</u>	<u>12,187</u>

20 Risk management

Exposure to residual value risk, credit risk, liquidity risk and market risk arises in the normal course of the Company's business. The policies for managing all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements are described in this note.

Residual value risk

A significant part of the Company's return from operating leases is dependent upon its management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the lease terms (the "residual values") differ from those projected at the inception of the leases. The Company regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let at the end of their current lease terms. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

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. Consideration is given to the costs and risks associated with each class of capital and to maximising the return to stakeholders through the optimisation of the debt to equity ratio.

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

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. It arises principally from lease receivables.

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

No lease receivables are past their due date.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

20 Risk management (continued)**Liquidity risk management**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. The Company borrows funds from another Group entity to meet any shortfall. Conversely, the Company lends any surplus funds to other Group entities.

The Company's assets, net of deferred tax, are funded principally by borrowings from another Group entity.

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

	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 2014						
Financial assets						
Loans and receivables						
- Trade and other receivables	221	221	-	221	-	-
- Loan receivables	-	-	-	-	-	-
	221	221	-	221	-	-
Financial liabilities						
Non-derivative instruments- Amortised cost						
- Trade and other payables	(1,593)	(1,593)	-	(1,593)	-	-
- Intercompany loan from Eversholt Funding Ltd	-	-	-	-	-	-
- Intercompany loan from Eversholt Rail (UK) Ltd	(1,061,495)	(1,061,495)	-	-	(1,061,495)	-
	(1,063,088)	(1,063,088)	-	(1,593)	(1,061,495)	-
Total financial instruments	(1,062,867)	(1,062,867)	-	1,372	(1,061,495)	-
	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 2013						
Financial assets						
Loans and receivables						
- Trade and other receivables	578	578	-	578	-	-
- Loan receivables	145,761	145,761	145,761	-	-	-
	146,339	146,339	145,761	578	-	-
Financial liabilities						
Non-derivative instruments- Amortised cost						
- Trade and other payables	(2,601)	(2,601)	-	(2,601)	-	-
- Loan from Eversholt Funding Ltd	(1,049,455)	(1,818,912)	-	(77,685)	(348,933)	(1,392,294)
- Intercompany loan from Eversholt Rail (UK) Ltd	-	-	-	-	-	-
	(1,052,056)	(1,821,513)	-	(80,286)	(348,933)	(1,392,294)
Total financial instruments	(905,717)	(1,675,174)	145,761	(79,708)	(348,933)	(1,392,294)

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

20 Risk management (continued)**Liquidity risk management (continued)**

Intercompany loans which have terms based on the terms of external bonds issued by Eversholt Funding plc have been repaid during the year and have a carrying value of £nil (2013: £952,920,337) and a fair value of £nil (2013: £1,237,870,000) and fell into the level two of fair value measurement hierarchy.

There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2014 (2013: nil).

Undiscounted cash flows in respect of the intercompany loans with Eversholt Rail (UK) Limited include principle amount only, due to uncertainty of working capital movements and of interest estimation. Interest on working capital loans is settled as part of working capital cash movements and not accrued.

Market risk management

The Company has limited exposure to foreign exchange risk on its financial assets and financial liabilities. The only exposure is in the Company's Euro denominated bank balance. Minimal balances are retained in this account.

The Company has exposure to fluctuations in interest rates. The cash flow exposure is managed at a Group level through the use of interest rate swaps. The net cost or benefit of the use of swaps is taken into account in determining the interest charged on loans to and from other Group entities.

Interest rate sensitivity analysis

The impact of a 50 basis points increase in GBP LIBOR would have resulted in a decrease in intercompany working capital interest expense of £422,723 and a decrease of £24,375 in intercompany term lending interest expense.

21 Operating lease arrangement

At the reporting date, the Company had contracted with lessees for the following future minimum lease payments.

	2014 £'000	2013 £'000
Within one year	217,109	166,437
2-5 years	446,142	96,372
Over 5 years	19,434	10,588
	682,685	273,397
Aggregate operating lease rentals receivable in the year	214,011	226,539

22 Related-Party Transactions**22.1 Identity of related parties**

The Company has a related party relationship with its Directors (refer page 3) and with its fellow group undertakings of the Eversholt Rail Group, namely:

- European Rail Finance Holdings Limited
- Eversholt Investment Limited
- European Rail Finance (GB) Limited
- Eversholt Finance Holdings Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Funding plc
- Eversholt Rail (UK) Limited
- Eversholt Depot Finance (UK) Limited
- Eversholt Rail (380) Limited
- Eversholt Rail (365) Limited
- European Rail Finance (2) Limited

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

22 Related-party transactions (continued)

22.1 Identity of related parties (continued)

The ultimate parent undertaking (which is the ultimate controlling party) is Eversholt Investment Group (Luxembourg) sarl. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Eversholt Investment Limited. The immediate holding company is European Rail Finance (2) Limited. The result of the Company is included in the group financial statements of Eversholt Investment Limited.

Copies of the group financial statements may be obtained from the following address:

Newmount House
22-24 Mount Street Lower
Dublin 2
Ireland

22.2 Transactions with related parties

The Company has entered into the following transactions with related parties during the year:

Loans with related parties are more fully described in notes 12 and 16. Finance charges on these loan accounts are more fully described in notes 6 and 7.

A management fee of £12,205,902 has been paid to Eversholt Rail (UK) Ltd (2013: £10,677,144). A management fee of £60,000 has been paid to Eversholt Investment Ltd (2013: £180,000).

There was no prepayment for management services to Eversholt Rail (UK) Limited during the year (2013: nil).

23 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2014 (2013: nil).

24 Subsequent events

The Company has agreed commercial terms to sell its entire freight wagon fleet. The transaction is anticipated to complete by the end of February 2015.