

# **European Rail Finance (GB) Limited**

**Unaudited, condensed interim financial statements  
for the 6 months ended 30 June 2017**

**Registered No: 02720809**

Unaudited

European Rail Finance (GB) Limited

**Condensed interim financial statements**

For the 6 months ended 30 June 2017

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Unaudited

**Condensed income statement**

for the 6 months ended 30 June 2017

		6 months ended	
	Notes	30 June 2017 £'000	30 June 2016 £'000
<b>Revenue</b>			
Operating lease income		185,059	176,658
Other revenue		-	58
Service charge income		-	55
<b>Total income</b>		<u>185,059</u>	<u>176,771</u>
Cost of sales	4	<u>(97,754)</u>	<u>(92,245)</u>
<b>Gross Profit</b>		87,305	84,526
Finance expense	5	(42,396)	(50,662)
Net fair value gain on derivatives		2	84
Administrative expense	6	<u>(8,618)</u>	<u>(9,643)</u>
<b>Profit before tax</b>		36,293	24,305
Income tax charge		<u>(6,337)</u>	<u>(4,375)</u>
<b>Profit for the period</b>		<u>29,956</u>	<u>19,930</u>

There were no discontinued or discontinuing operations during the period.

The notes on pages 6 to 10 form an integral part of these financial statements.

**Condensed statement of other comprehensive income**

for the 6 months ended 30 June 2017

		6 months ended	
	Notes	30 June 2017 £'000	30 June 2016 £'000
Profit for the period		29,956	19,930
Effective portion of changes in fair value of cash flow hedges	14	6,209	21,801
Realised gain on cash flow hedges	14	(345)	(1,319)
Income tax on other comprehensive income		<u>(997)</u>	<u>(3,687)</u>
<b>Total comprehensive income for the period</b>		<u>34,823</u>	<u>36,725</u>

**Condensed statement of financial position**

as at 30 June 2017

	Notes	30 June 2017 £'000	31 December 2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	2,228,760	2,189,198
Investments in subsidiaries	9	149,323	34,348
Derivative financial instruments	14	26,202	20,416
		<u>2,404,285</u>	<u>2,243,962</u>
<b>Current assets</b>			
Trade and other receivables	8	7,573	1,660
Cash and cash equivalents		2,750	-
Current tax asset		14,081	14,081
<b>Total assets</b>		<u>24,404</u>	<u>15,741</u>
<b>Total assets</b>		<u>2,428,689</u>	<u>2,259,703</u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	10	82,640	36,933
Deferred revenue	11	3,149	3,290
Borrowings	12	52,243	52,243
		<u>138,032</u>	<u>92,466</u>
<b>Non-current liabilities</b>			
Deferred revenue	11	114,040	111,800
Borrowings	12	1,962,294	1,883,271
Deferred tax	13	69,966	62,632
		<u>2,146,300</u>	<u>2,057,703</u>
<b>Total liabilities</b>		<u>2,284,332</u>	<u>2,150,169</u>
<b>Equity</b>			
Share capital		50,000	50,000
Hedging reserve		25,380	20,513
Retained earnings		68,977	39,021
<b>Total equity</b>		<u>144,357</u>	<u>109,534</u>
<b>Total equity and liabilities</b>		<u>2,428,689</u>	<u>2,259,703</u>

The notes on pages 6 to 10 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 14 September 2017. They were signed on its behalf by:



**A J Wesson**  
Director

Company registration number 02720809

**Condensed statement of cash flows**

for the 6 months ended 30 June 2017

	6 months ended	
	30 June 2017 £'000	30 June 2016 £'000
<b>Cash flows from operating activities</b>		
Profit before tax	36,293	24,305
Adjustments for:		
- Depreciation charge	63,776	59,552
- Finance expense	42,396	50,662
- Gain on fair value of derivative financial instruments	(2)	(84)
<b>Operating cash flow before changes in working capital</b>	<b>142,463</b>	<b>134,435</b>
(Increase)/decrease in trade and other receivables	(5,913)	6,339
Increase in deferred revenue	2,099	764
Increase in trade and other payables	45,707	7,337
Decrease in obligations under finance lease	-	(1,572,460)
<b>Cash generated by/(utilised in) operating activities</b>	<b>184,356</b>	<b>(1,423,585)</b>
Tax paid	-	-
<b>Net cash generated by/(utilised in) operating activities</b>	<b>184,356</b>	<b>(1,423,585)</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(103,683)	(192,644)
<b>Net cash (utilised in) investing activities</b>	<b>(103,683)</b>	<b>(192,644)</b>
<b>Financing activities</b>		
Loan (repaid to)/raised from Eversholt Rail (UK) Limited	(26,109)	1,570,651
Cash received on derivative termination	424	5,689
Finance expenses paid	(42,396)	(50,662)
Other interest	44	47
Investment in subsidiaries	(114,974)	-
Movement in working capital loan account	105,088	90,504
<b>Net cash (utilised in)/ generated by financing activities</b>	<b>(77,923)</b>	<b>1,616,229</b>
<b>Net movement in cash and cash equivalents</b>	<b>2,750</b>	<b>-</b>
Cash and cash equivalents at beginning of the period	-	-
<b>Cash and cash equivalents at end of the period</b>	<b>2,750</b>	<b>-</b>

**Condensed statement of changes in equity**

for the 6 months ended 30 June 2017

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total shareholders' equity £'000
<b>Balance at 1 January 2016</b>	50,000	-	20,980	70,980
Profit for the year	-	-	54,041	54,041
Dividend paid	-	-	(36,000)	(36,000)
Effective portion of changes in fair value of cash flow hedges	-	26,024	-	26,024
Realised gain on cash flow hedges	-	(1,319)	-	(1,319)
Income tax on other comprehensive income	-	(4,192)	-	(4,192)
<b>Balance at 31 December 2016</b>	<u>50,000</u>	<u>20,513</u>	<u>39,021</u>	<u>109,534</u>

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total shareholders' equity £'000
<b>Balance at 1 January 2017</b>	50,000	20,513	39,021	109,534
Profit for the period	-	-	29,956	29,956
Effective portion of changes in fair value of cash flow hedges	-	6,209	-	6,209
Realised gain on cash flow hedges	-	(345)	-	(345)
Income tax on other comprehensive income	-	(997)	-	(997)
<b>Balance at 30 June 2017</b>	<u>50,000</u>	<u>25,380</u>	<u>68,977</u>	<u>144,357</u>

## Notes to the condensed interim financial statements

for the 6 months ended 30 June 2017

### 1 General information

European Rail Finance (GB) Limited (the "Company") is a company incorporated and domiciled in England and Wales under the Companies Act. The registered office of the Company is 210 Pentonville Road, London, N1 9JY.

### 2 Basis of preparation

These financial statements are presented in £'000. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

#### 2.1 Compliance with International Financial Reporting Standards

The financial statements of European Rail Finance (GB) Limited have been prepared on the historical cost basis.

The condensed interim financial report has been prepared in accordance with *IAS 34 Interim Financial Reporting* as adopted by the European Union. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Company since the last annual financial statements as at and for year ended 31 December 2016. This condensed interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the financial statements for the year ended 31 December 2016.

#### 2.2 Going concern

The financial statements have been assessed in conjunction with the Company's immediate parent, European Rail Finance Holdings Limited, as its viability is dependent upon the ability of the other Group companies to provide funds for the Company when required. As a result and having made appropriate enquiries, reviewed forecasts and having the commitment of support from the parent, the Directors consider it reasonable to assume that the Company has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.

### 3 Summary of significant accounting policies

The accounting policies applied by the Company in this condensed interim financial report are the same as those applied by the Company in its financial statements for the year ended 31 December 2016.

### 4 Cost of sales

	6 months ended	
	30 June 2017	30 June 2016
	£'000	£'000
Depreciation	63,776	59,552
Maintenance cost	33,978	32,693
	<u>97,754</u>	<u>92,245</u>

### 5 Finance expense

	6 months ended	
	30 June 2017	30 June 2016
	£'000	£'000
Interest payable to Eversholt Rail (UK) Limited	41,598	23,891
Interest expense on finance lease with European Rail Finance Limited	-	25,921
Finance charges payable to Eversholt Funding plc	798	842
Other interest	-	8
	<u>42,396</u>	<u>50,662</u>

**Notes to the condensed interim financial statements (continued)**

for the 6 months ended 30 June 2017

**6 Administrative expense**

Administrative expenses include the following:

	6 months ended	
	30 June 2017	30 June 2016
	£'000	£'000
Management fees	8,676	9,402
Audit fees	25	19

The Company has no employees and hence no staff costs (6 months ended 30 June 2016: nil).

**7 Property, plant and equipment**

	Rolling stock and other railway assets £'000
<b>Cost</b>	
Balance at 1 January 2016	2,122,100
Additions	272,149
<b>Balance at 31 December 2016</b>	<u>2,394,249</u>
Additions	103,338
<b>Balance at 30 June 2017</b>	<u>2,497,587</u>
<b>Depreciation</b>	
Balance at 1 January 2016	84,230
Charge for the year	120,821
<b>Balance at 31 December 2016</b>	<u>205,051</u>
Charge for the period	63,776
<b>Balance at 30 June 2017</b>	<u>268,827</u>
<b>Carrying value at 30 June 2017</b>	<u>2,228,760</u>
Carrying value at 31 December 2016	<u>2,189,198</u>

Rolling stock has been pledged to secure borrowings of Eversholt UK Rails (Holding) Limited (Security Group). The Company is not permitted to pledge these assets as security for other borrowings. Realised gain on derivatives of £334,675 forms part of the rolling stock additions. Refer to note 14 for further details.

**8 Trade and other receivables**

	30 June 2017 £'000	31 December 2016 £'000
<b>Current</b>		
Trade receivables	<u>7,573</u>	<u>1,660</u>

**9 Investments in subsidiaries**

	30 June 2017 £'000	31 December 2016 £'000
Cost	<u>149,323</u>	<u>34,348</u>

On 20 June 2017 the Company purchased shares in Eversholt Rail (UK) Limited, Eversholt Depot Finance (UK) Limited and Eversholt Rail (365) Limited from another group undertaking Eversholt Rail Holdings (UK) Limited for a total consideration of £114,974,151.



**Notes to the condensed interim financial statements (continued)**

for the 6 months ended 30 June 2017

**10 Trade and other payables**

	30 June 2017 £'000	31 December 2016 £'000
Trade payables	3,772	7,624
Rentals received in advance	16,846	13,108
Accruals	54,471	8,856
Other payables	7,551	7,345
	<u>82,640</u>	<u>36,933</u>

**11 Deferred revenue**

The deferred revenue arises in respect of the Company's obligations in respect of maintenance contracts in certain leases. Amounts received are released when maintenance costs are incurred.

	30 June 2017 £'000	31 Decembe £'000
<b>Current</b>	<u>3,149</u>	<u>3,290</u>
<b>Non-current</b>	<u>114,040</u>	<u>111,800</u>

**12 Borrowings**

	30 June 2017 £'000	31 December 2016 £'000
<b>Current</b>		
Eversholt Rail (UK) Limited (term loan)	<u>52,243</u>	<u>52,243</u>
<b>Non-current</b>		
Eversholt Rail (UK) Limited (term loan)	1,467,309	1,493,418
Eversholt Rail (UK) Limited (working capital loan)	489,241	384,153
Bank loan	5,744	5,700
	<u>1,962,294</u>	<u>1,883,271</u>

The term loan with Eversholt Rail (UK) Limited enabled the company to settle in full, on 1 April 2016, its rental obligations under the finance lease with European Rail Finance Limited. The loan is repayable on or before 1 April 2036 with capital and interest payable on a monthly basis. Interest is charged at LIBOR plus margin.

The intragroup working capital loan with Eversholt Rail (UK) Limited is classified as non-current as it is repayable on or before 4 November 2018. 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 (2016: senior debt plus margin).

The bank loan is secured against assets of the Class 365 fleet. It is classified as non-current as it is repayable in 2021 (2016: secured and non-current). Interest on the loan is capitalised at a floating rate of GBP LIBOR (2016: GBP LIBOR).

**Notes to the condensed interim financial statements (continued)**

for the 6 months ended 30 June 2017

**13 Deferred tax**

Leasing transactions temporary differences:

	30 June 2017 £'000	31 December 2016 £'000
Balance at beginning of the period/year	62,632	39,619
Adjustment in respect of prior years	-	9,471
Accelerated capital allowances	6,986	13,620
Change in tax rate	(649)	(4,270)
Income tax on other comprehensive income	997	4,192
<b>Balance at end of the period/year</b>	<b>69,966</b>	<b>62,632</b>

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

The deferred tax asset at 30 June 2017 has been calculated based on rates of 17% (31 December 2016: 17%) substantively enacted at the reporting date.

**14 Derivative financial instruments**

The fair values together with the carrying amounts of the derivative financial instruments are as follows:

	Carrying amount 30 June 2017 £'000	Fair value 30 June 2017 £'000	Carrying amount 31 December 2016 £'000	Fair value 31 December 2016 £'000
<b>Non-current assets</b>				
FX forwards – hedge accounted	26,202	26,202	20,416	20,416

During the period the Company entered into FX forward deals to hedge cash flow risk associated with fluctuations in foreign exchange rates.

Counterparty	Notional amount 30 June 2017 £'000	Maturity date	Fair value 30 June 2017 £'000	Other comprehensive income 30 June 2017 £'000	Ineffective profit 30 June 2017 £'000	Realised (gain)/loss 30 June 2017 £'000
Relationship bank	88,919	20 August 2019	10,475	2,210	-	(1,057)
Relationship bank	201,818	1 July 2020	15,681	3,967	-	742
Relationship bank	1,430	1 July 2020	43	30	-	-
Relationship bank	508	20 August 2019	3	2	-	2
Relationship bank		Terminated	-	-	-	(32)
			26,202	6,209	-	(345)

Counterparty	Notional amount 31 December 2016 £'000	Maturity date	Fair value 31 December 2016 £'000	Other comprehensive income 31 December 2016 £'000	Ineffective profit 31 December 2016 £'000	Realised (gain)/loss 31 December 2016 £'000
Relationship bank	100,033	20 August 2019	9,324	9,321	-	-
Relationship bank	185,082	1 July 2020	11,084	11,086	-	-
Relationship bank	1,459	1 July 2020	8	8	-	-
Relationship bank		Terminated	-	2,910	-	-
			-	2,699	-	(1,319)
			20,416	26,024	-	(1,319)

**Notes to the condensed interim financial statements (continued)**

for the 6 months ended 30 June 2017

**14 Derivative financial instruments (continued)**

In determining the fair value of derivative financial instruments, the Directors have taken into account the contractual cash flows attached to the instrument and independently sourced forward exchange rates for the reporting date.

To date a realised gain of £334,675 (6 months to 30 June 2016: £1,319,405) has been recognised in property, plant and equipment additions. The residual gain will remain in the hedging reserve and realise in property, plant and equipment proportionately to the new build payment profile until the final payment in 2020.

**15 Capital commitments**

	30 June 2017 £'000	31 December 2016 £'000
In respect of capital expenditure	<u>873,871</u>	<u>944,227</u>

The above represents all capital commitments.

**16 Related-party transactions**

The Company has loans with related parties, more fully described in note 12. Interest on the loans is more fully described in note 5.

A management fee of £8,675,785 is payable to Eversholt Rail (UK) Limited for the period (6 months ended 30 June 2016: £9,401,752).

The Company has paid Eversholt Rail (UK) Limited £33,780,439 for the procurement of maintenance of the rolling stock (6 months ended 30 June 2016: £31,957,467).

For the period ended 30 June 2017 no dividends were declared or paid to European Rail Finance Holdings Limited (6 months ended 30 June 2016: nil).

**17 Contingent liabilities**

There were no contingent liabilities for the Company at 30 June 2017.

**18 Subsequent events**

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