

European Rail Finance (2) Limited

Annual Financial Statements for the year ended 31 December 2014

Registered No: IR510311

Annual financial statements
for the year ended 31 December 2014

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Directors' report

for the year ended 31 December 2014

Business review

The Company continues to hold all of the ordinary share capital of European Rail Finance Limited. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 14.

The business is funded by borrowings from 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 13 of the financial statements.

The principal business risks for the Company are in respect of the risk of diminution in the value of the investment in its subsidiary.

Financial performance

The Company's results for the year ended 31 December 2014 are as detailed in the income statement on page 7.

Monthly management accounts are prepared and reviewed at minimum on a quarterly basis by the Directors. The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual cashflows at Group level in comparison with planned cashflows.

Future developments

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

Dividends

On 31 March 2014, 27 June 2014 and 22 December 2014 the Directors declared dividends of £11,000,000, £3,000,000 and £22,500,000 respectively (2013: £21,500,000).

Capital Contributions

On 30 January 2014 the Company received a capital contribution of £431,500,000 (2013: £nil) from its immediate parent company.

Going concern basis

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

Impairment

During the year the investment was impaired by £152,930,455 (2013: £nil) to reflect the current market value of Eversholt Rail Finance Limited of £512,194,991 (2013: £665,125,446) based on net present value of future cashflows of the subsidiary company. Impairment cost was netted off in the Income statement against Dividend income.

Directors

The Directors who served during the period were as follows:

Name

B T Hayden
C Cullen
M Walsh

Directors' report (continued)

for the year ended 31 December 2014

Directors (continued)

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 period 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 necessary capital resources which are therefore 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 accounting records 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 auditors, KPMG Chartered Accountants will continue in office.

Signed on behalf of the Board by:



C. Cullen
Director



M Walsh
Director

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

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 its profit or loss 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;
- prepare the financial statements in accordance with IFRS as adapted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

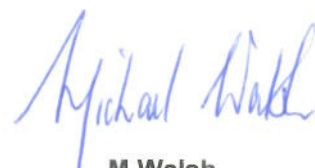
The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible for taking such 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 have been 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 (2) Limited
for the year ended 31 December 2014

We have audited the financial statements of European Rail Finance (2) 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 Directors' Responsibilities Statement 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 International Financial Reporting Standards 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 (2) 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

| | Note | 2014 £'000 | 2013 £'000 |
|----------------------------|------|----------------|---------------|
| Dividend income | 4 | 119,070 | 32,000 |
| Finance expense | 5 | (1,146) | (14,615) |
| Administrative expenses | 6 | (13) | (12) |
| Profit before tax | | 117,911 | 17,373 |
| Income tax credit | 7 | 184 | 4,618 |
| Profit for the year | | 118,095 | 21,991 |

There were no discontinued or discontinuing operations during the year.

The notes on pages 11 to 19 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 and 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 IR510311

Statement of financial position

as at 31 December 2014

| | Note | 2014 £'000 | 2013 £'000 |
|-------------------------------------|------|----------------|----------------|
| Assets | | | |
| Non-current assets | | | |
| Investment in subsidiary | 8 | <u>512,195</u> | <u>665,125</u> |
| Current assets | | | |
| Loan receivable | 9 | <u>1,702</u> | <u>-</u> |
| Current tax | | <u>184</u> | <u>2,396</u> |
| | | <u>1,886</u> | <u>2,396</u> |
| Total assets | | <u>514,081</u> | <u>667,521</u> |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Borrowings | 10 | <u>-</u> | <u>666,535</u> |
| Equity | | | |
| Share capital | 11 | <u>-</u> | <u>-</u> |
| Capital Contributions | | <u>431,500</u> | <u>-</u> |
| Retained earnings | | <u>82,581</u> | <u>986</u> |
| Total equity | | <u>514,081</u> | <u>986</u> |
| Total equity and liabilities | | <u>514,081</u> | <u>667,521</u> |

The notes on pages 11 to 19 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 IR510311

Statement of cash flows

for the year ended 31 December 2014

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Cash flows from operating activities | | |
| Profit before tax | 117,911 | 17,373 |
| Adjustments for: | | |
| - Dividends receivable | (272,000) | (32,000) |
| - Non-cash investment impairment | 152,930 | - |
| - Finance expense | 1,146 | 14,615 |
| Cash utilised in operating activities | (13) | (12) |
| Group relief received | 2,396 | 2,223 |
| Cash generated by operating activities | 2,383 | 2,211 |
| Cash flow from investing activities | | |
| Dividends received | 272,000 | 32,000 |
| Capital Contributions received | 431,500 | - |
| Net cash generated by investing activities | 703,500 | 32,000 |
| Cash flow from financing activities | | |
| Intercompany loans repaid | (666,535) | - |
| Interest paid | (1,146) | (14,615) |
| Movement in working capital loan account | (1,702) | 1,904 |
| Dividend paid | (36,500) | (21,500) |
| Net cash utilised in financing activities | (705,883) | (34,211) |
| Net movement in cash and cash equivalents | - | - |
| Cash and cash equivalents at beginning of the year | - | - |
| 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 contributions £'000 | Retained earnings £'000 | Total shareholder's equity £'000 |
|------------------------------------|-------------------------------------|-----------------------------------|-------------------------------|---|
| Balance at 1 January 2013 | - | - | 495 | 495 |
| Profit for the year | - | - | 21,991 | 21,991 |
| Dividends paid | - | - | (21,500) | (21,500) |
| Balance at 31 December 2013 | - | - | 986 | 986 |
| Profit for the year | - | - | 118,095 | 118,095 |
| Capital Contributions received | - | 431,500 | - | 431,500 |
| Dividends paid | - | - | (36,500) | (36,500) |
| Balance at 31 December 2014 | - | 431,500 | 82,581 | 514,081 |

Notes to the annual financial statements

for the year ended 31 December 2014

1. General Information

European Rail Finance (2) Limited (the "Company"), is a company domiciled and 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 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 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 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 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 are recognised in profit and loss in the period in which they are incurred.

3.2 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 period, 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. 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 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. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Company has a legal right to offset.

3.3 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

3. Summary of significant accounting policies (continued)

3.3 Foreign currencies (continued)

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

3.4 Subsidiaries

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

3.5 Financial instruments

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.

3.5.1 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.

3.5.2 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.

3.5.3 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.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

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.

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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

3. Summary of significant accounting policies (continued)

3.5.4 Loans and receivables

Loans and receivables include receivables originated by the Company which are not either classified 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.

3.5.5 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.

3.5.6 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 to realise the asset and settle the liability simultaneously.

3.6 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.

3.7 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.

3.8 Determination of fair value

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

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

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

3. Summary of significant accounting policies (continued)**3.9 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.

There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

3.10 Dividend income

Dividend income from investments is recognised when the right to receive payment is established.

4. Dividend

During 2014, the Company received dividend income of £272,000,000 from European Rail Finance Limited (2013:£32,000,000). Impairment of £152,930,455 (2013: £nil) was netted off against dividend income in the Income statement resulting in Dividend income of £119,069,545 (2013: £32,000,000).

During 2014, the Company paid dividend of £36,500,000 to European Rail Finance Holdings Limited (2013:£21,500,000).

5. Finance expense

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Interest payable to Eversholt Rail (UK) Limited | (1,146) | (14,615) |

6. Administrative expense

| | 2014 £'000 | 2013 £'000 |
|-------------------|---------------|---------------|
| Management fees | (7) | (12) |
| Bank charges | (1) | - |
| Professional fees | (5) | - |
| | (13) | (12) |

The Company has no employees and hence no staff costs (2013: nil). Audit fees were borne by another group entity.

7. Income tax credit

| | 2014 £'000 | 2013 £'000 |
|--------------------|---------------|---------------|
| Current tax | | |
| Current period | 184 | 4,618 |

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 corporation tax rate:

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Taxation at corporation tax rate of 12.5% | (14,739) | (2,172) |
| Permanent tax effects | 14,923 | 4,567 |
| Prior year adjustment | - | 2,223 |
| Income tax credit | 184 | 4,618 |

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

8. Investments in subsidiary

| | 2014 £'000 | 2013 £'000 |
|----------------------|----------------|----------------|
| Cost | | |
| Balance at 1 January | 665,125 | 665,125 |
| Impairment | (152,930) | - |
| At 31 December | <u>512,195</u> | <u>665,125</u> |

During the year investment was impaired by £152,930,455 (2013: £nil) to reflect the current market value of Eversholt Rail Finance Limited of £512,194,991 (2013: £665,125,446) based on net present value of future cashflows of the subsidiary company. Impairment cost was netted off in the Income statement against Dividend income.

The subsidiary undertaking of the Company at the end of the reporting period was:

| Name of Undertaking | Class of Capital | Country of Incorporation | Type of business | Ownership Percentage | |
|-------------------------------|------------------|--------------------------|------------------|----------------------|------|
| | | | | 2014 | 2013 |
| European Rail Finance Limited | Ordinary Shares | Ireland | Leasing | 100% | 100% |

9. Loan receivable

| | 2014 £'000 | 2013 £'000 |
|-----------------------------|---------------|---------------|
| Eversholt Rail (UK) Limited | <u>1,702</u> | <u>-</u> |

The loan is repayable on demand but with a contractual final maturity of 2018. Interest on the loan is receivable monthly at a floating rate based on LIBID less margin.

10. Borrowings

| | Current £'000 | Non - current £'000 | Total £'000 |
|-----------------------------|------------------|------------------------|----------------|
| 31 December 2014 | | | |
| Eversholt Rail (UK) Limited | <u>-</u> | <u>-</u> | <u>-</u> |
| 31 December 2013 | | | |
| Eversholt Rail (UK) Limited | <u>666,535</u> | <u>-</u> | <u>666,535</u> |

This loan was unsecured, had no fixed date for repayment and was therefore technically repayable on demand. Interest was charged at margin over GBP LIBOR.

11. Share capital

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Authorised | | |
| 1,000,000 ordinary shares of £1 each | <u>1,000</u> | <u>1,000</u> |
| | 2014 £ | 2013 £ |
| Allotted, called up and fully paid Ordinary share of £1 | <u>1</u> | <u>1</u> |

The holder of the ordinary share is entitled to attend and vote at annual general meetings and receive dividends as and when declared.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

12. Fair value of financial assets and liabilities

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

13. Risk management**Capital risk management**

Exposure to 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.

The Board actively monitors the capital structure of the Company to ensure that the Company is able to continue as a going concern. Consideration is given to the cost 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 requirements.

As part of that process, management reviews the monthly management accounts of the Business.

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 payable to meet financial liabilities are analysed below by their contractual due date, including estimated interest cash flows where appropriate:

| | Carrying value £'000 | Total undiscounted cash flows £'000 | On demand £'000 | Due within 1-5 years £'000 |
|---|-------------------------|---|--------------------|----------------------------------|
| 31 December 2014 | | | | |
| Financial assets | | | | |
| Loans and receivables | 1,702 | 1,702 | - | 1,702 |
| Financial liabilities | | | | |
| Other financial instruments – amortised cost | | | | |
| - Borrowings | - | - | - | - |
| Total financial instruments | <u>1,702</u> | <u>1,702</u> | <u>-</u> | <u>1,702</u> |
| | Carrying value £'000 | Total undiscounted cash flows £'000 | On demand £'000 | Due within 1 year £'000 |
| 31 December 2013 | | | | |
| Financial assets | | | | |
| Loans and receivables | - | - | - | - |
| Financial liabilities | | | | |
| Other financial instruments – amortised cost | | | | |
| - Borrowings | (666,535) | (666,535) | (666,535) | - |
| Total financial instruments | <u>(666,535)</u> | <u>(666,535)</u> | <u>(666,535)</u> | <u>-</u> |

Undiscounted cash flows in respect of the intercompany loans receivables 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.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

13. Risk management (continued)

Market risk management

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

The Company has exposure to fluctuation in interest rates. This exposure is managed at a Group level through the use of interest rate swaps. The cash benefit derived from 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 an increase in intercompany working capital interest expense of £268,227.

14. Related-party transactions

14.1 Identity of related parties

The Company has related party relationships with its Directors (refer page 2) and with other entities in the Eversholt Rail Group namely:

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

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. European Rail Finance Holdings Limited is the immediate holding Company. The results of the Company are 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

14.2 Transactions with related parties

The Company has a loan account with a fellow group undertaking more fully described in notes 9 and 10. Interest on this account is more fully described in note 5.

Notes to the annual financial statements (continued)

for the year ended 31 December 2014

15. Contingent liabilities

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

16. Subsequent events

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