

European Rail Finance (GB) Limited

**Unaudited, condensed interim financial statements
for the 6 months ended 30 June 2016**

Registered No: 02720809

European Rail Finance (GB) Limited

Condensed interim financial statements

For the 6 months ended 30 June 2016

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Condensed income statement

for the 6 months ended 30 June 2016

	<i>Notes</i>	6 months ended	
		30 June 2016 £'000	30 June 2015 £'000
Revenue			
Operating lease income		176,658	85,950
Other revenue		58	3,291
Service charge income		55	50
Total income		<u>176,771</u>	<u>89,291</u>
Cost of sales	4	<u>(92,245)</u>	<u>(75,415)</u>
Gross Profit		<u>84,526</u>	<u>13,876</u>
Finance expense	5	(50,662)	(2,971)
Net fair value gain on derivatives		84	-
Administrative expenses	6	(9,643)	(1,080)
Profit on disposal of property, plant and equipment		-	3,652
Profit before tax		<u>24,305</u>	<u>13,477</u>
Income tax charge		<u>(4,375)</u>	<u>(9,441)</u>
Profit for the period		<u>19,930</u>	<u>4,036</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 2016

	<i>Notes</i>	6 months ended	
		30 June 2016 £'000	30 June 2015 £'000
Profit for the period		19,930	4,036
Effective portion of changes in fair value of cash flow hedges	14	21,801	-
Realised gain on cash flow hedges	14	(1,319)	-
Income tax on other comprehensive income		(3,687)	-
Total comprehensive income for the period		<u>36,725</u>	<u>4,036</u>

Condensed statement of financial position

as at 30 June 2016

	<i>Notes</i>	30 June 2016 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	7	2,169,643	2,037,870
Trade and other receivables	8	50	4,908
Investments in subsidiaries		34,348	34,348
Derivative financial instruments	14	16,198	-
		<u>2,220,239</u>	<u>2,077,126</u>
Current assets			
Trade and other receivables	8	1,419	2,900
		<u>2,221,658</u>	<u>2,080,026</u>
Total assets			
Liabilities and equity			
Current liabilities			
Obligations under finance lease	9	-	5,890
Trade and other payables	10	23,463	16,126
Deferred revenue	11	3,102	3,176
Borrowings	12	51,099	-
		<u>77,664</u>	<u>25,192</u>
Non-current liabilities			
Obligations under finance lease	9	-	1,566,570
Deferred revenue	11	100,286	99,448
Borrowings	12	1,888,322	278,217
Deferred tax	13	47,681	39,619
		<u>2,036,289</u>	<u>1,983,854</u>
		<u>2,113,953</u>	<u>2,009,046</u>
Total liabilities			
Equity			
Share capital		50,000	50,000
Hedging reserve		16,795	-
Retained earnings		40,910	20,980
Total equity		<u>107,705</u>	<u>70,980</u>
		<u>2,221,658</u>	<u>2,080,026</u>
Total equity and liabilities			

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 27 September 2016. 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 2016

	6 months ended	
	30 June 2016	30 June 2015
	£'000	£'000
Cash flows from operating activities		
Profit before tax	24,305	13,477
Adjustments for:		
- Depreciation charge	59,552	4,960
- Profit on disposal of property, plant and equipment	-	(3,652)
- Finance expense	50,662	2,971
- Gain on fair value of derivative financial instruments	(84)	-
Operating cash flow before changes in working capital	134,435	17,756
Decrease/(increase) in trade and other receivables	6,339	(13,033)
Increase/(decrease) in deferred revenue	764	(205)
Increase/(decrease) in trade and other payables	7,337	(2,875)
Decrease in obligations under finance lease	(1,572,460)	-
Cash (utilised in)/generated by operating activities	(1,423,585)	1,643
Tax paid	-	(6,285)
Net cash utilised in operating activities	(1,423,585)	(4,642)
Investing activities		
Acquisition of property, plant and equipment	(192,644)	(1,513)
Proceeds from disposal of property, plant and equipment	-	6,902
Net cash (utilised in)/generated by investing activities	(192,644)	5,389
Financing activities		
Loan raised from Eversholt Rail (UK) Limited	1,570,651	-
Cash received on derivative termination	5,689	-
Finance expenses paid	(50,662)	(2,971)
Other interest	47	46
Movement in working capital loan account	90,504	2,178
Net cash generated by/(utilised in) financing activities	1,616,229	(747)
Net movement in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the period	-	-
Cash and cash equivalents at end of the period	-	-

Condensed statement of changes in equity

for the 6 months ended 30 June 2016

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total shareholders' equity £'000
Balance at 1 January 2015	50,000	-	783	50,783
Profit for the year	-	-	20,197	20,197
Balance at 31 December 2015	<u>50,000</u>	<u>-</u>	<u>20,980</u>	<u>70,980</u>

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total shareholders' equity £'000
Balance at 1 January 2016	50,000	-	20,980	70,980
Profit for the period	-	-	19,930	19,930
Effective portion of changes in fair value of cash flow hedges	-	21,801	-	21,801
Realised gain on cash flow hedges	-	(1,319)	-	(1,319)
Income tax on other comprehensive income	-	(3,687)	-	(3,687)
Balance at 30 June 2016	<u>50,000</u>	<u>16,795</u>	<u>40,910</u>	<u>107,705</u>

Notes to the condensed interim financial statements

for the 6 months ended 30 June 2016

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 2015. 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 2015.

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 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 2015.

4 Cost of sales

	6 months ended	
	30 June 2016	30 June 2015
	£'000	£'000
Operating lease rental	-	49,225
Depreciation	59,552	4,960
Maintenance cost	32,693	21,230
	<u>92,245</u>	<u>75,415</u>

5 Finance expense

	6 months ended	
	30 June 2016	30 June 2015
	£'000	£'000
Interest payable to Eversholt Rail (UK) Limited	23,891	2,941
Interest expense on finance lease with European Rail Finance Limited	25,921	-
Finance charges payable to Eversholt Funding plc	842	30
Other interest	8	-
	<u>50,662</u>	<u>2,971</u>

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2016

6 Administrative expenses

Administrative expenses include the following:

	6 months ended	
	30 June 2016 £'000	30 June 2015 £'000
Management fees	9,402	1,048
Audit fees	19	8

The Company has no employees and hence no staff costs (6 months ended 30 June 2015: nil).

7 Property, plant and equipment

	Rolling stock and other railway assets £'000
Cost	
Balance at 1 January 2015	290,794
Additions	97,284
Disposals	(7,900)
Acquisitions from other group undertakings	1,741,922
Balance at 31 December 2015	<u>2,122,100</u>
Additions	191,325
Balance at 30 June 2016	<u>2,313,425</u>
Depreciation	
Balance at 1 January 2015	76,846
Charge for the year	11,626
Disposals	(4,242)
Balance at 31 December 2015	<u>84,230</u>
Charge for the period	59,552
Balance at 30 June 2016	<u>143,782</u>
Carrying value at 30 June 2016	<u>2,169,643</u>
Carrying value at 31 December 2015	<u>2,037,870</u>

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. Realised gain on derivatives of £1,319,405 forms part of the rolling stock additions. Refer to note 14 for further details.

8 Trade and other receivables

	30 June 2016 £'000	31 December 2015 £'000
Current		
Trade receivables	<u>1,419</u>	<u>2,900</u>
Non-current		
Maintenance prepayment	<u>50</u>	<u>4,908</u>

9 Obligations under finance lease

On 31 December 2015, the Company entered into a finance lease arrangement with another group undertaking, European Rail Finance Limited ("lessor"), to lease the lessor's rolling stock assets at a market value of £1,572,459,900 calculated at net present value of lease rentals. Consequently the Company recognised a finance lease obligation in its books at the market value of £1,572,459,900 and corresponding rolling stock assets at the same value. The finance lease arrangement is in place for the duration of the useful economic lives of the respective rolling stock assets.

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2016

9 Obligations under finance lease (continued)

During the period the rental obligations under the finance lease were prepaid by European Rail Finance (GB) Limited. See note 12 for further details.

10 Trade and other payables

	30 June 2016 £'000	31 December 2015 £'000
Trade payables	2,206	4,670
Rentals received in advance	-	6,391
Accruals	13,992	631
Other payables	7,265	4,434
	<u>23,463</u>	<u>16,126</u>

11 Deferred revenue

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

	30 June 2016 £'000	31 December 2015 £'000
Current	<u>3,102</u>	<u>3,176</u>
Non-current	<u>100,286</u>	<u>99,448</u>

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

12 Borrowings

	30 June 2016 £'000	31 December 2015 £'000
Current		
Eversholt Rail (UK) Limited (term loan)	<u>51,099</u>	-
Non-current		
Eversholt Rail (UK) Limited (term loan)	1,519,552	-
Eversholt Rail (UK) Limited	363,117	272,613
Bank loan	<u>5,653</u>	<u>5,604</u>
	<u>1,888,322</u>	<u>278,217</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 (2015: senior debt plus margin).

The bank loan from HSBC Bank plc is secured against assets of the Class 365 fleet. It is classified as non-current as it is repayable in 2021 (2015: secured and non-current). Interest on the loan is capitalised at a floating rate of GBP LIBOR (2015: GBP LIBOR).

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2016

13 Deferred tax

Leasing transactions temporary differences:

	30 June 2016 £'000	31 December 2015 £'000
Balance at beginning of the period/year	39,619	22,855
Amount arising from temporary differences	4,860	5,715
Change in tax rate	(485)	(2,920)
Income tax on other comprehensive income	3,687	-
Transfers from other group undertakings	-	13,969
Balance at end of the period/year	47,681	39,619

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

Reduction in the UK corporation tax rate to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013.

Further reductions to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 18 November 2015. As a result of this reduction the company's future current tax charge will reduce.

The deferred tax asset at 30 June 2016 has been calculated based on rates of 18% (31 December 2015: 18%) substantively enacted at the reporting date. The effect of the change in the rate to 18% is included in the financial statements.

14 Derivative financial instruments

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

	Carrying amount 30 June 2016 £'000	Fair value 30 June 2016 £'000	Carrying amount 31 December 2015 £'000	Fair value 31 December 2015 £'000
Non-current assets				
FX forwards – hedge accounted	<u>16,198</u>	<u>16,198</u>	-	-

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

Counterparty	Notional amount 30 June 2016 £'000	Maturity date	Fair value 30 June 2016 £'000	Other comprehensive income 30 June 2016 £'000	Ineffective profit 30 June 2016 £'000	Realised gain/(loss) 30 June 2016 £'000
Relationship bank	100,033	20 August 2019	8,644	8,636	9	-
Relationship bank	185,082	1 July 2020	7,553	7,550	3	-
Relationship bank	-	1 April 2016	-	5,615	72	1,319

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.

During the period a gain of £5,615,141 was recorded in other comprehensive income in respect of FX forward derivatives to hedge foreign exchange rate fluctuation on domestic currency costs of new build commitments.

To date a realised gain of £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.

Notes to the condensed interim financial statements (continued)

for the 6 months ended 30 June 2016

15 Capital commitments

	30 June 2016 £'000	31 December 2015 £'000
In respect of capital expenditure	<u>873,657</u>	<u>442,408</u>

The above represents all capital commitments, including two contracts entered into during the period to purchase and lease 140 new Class 195, 141 new Class 331 vehicles and 60 new Class 397 vehicles.

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 £9,401,752 is payable to Eversholt Rail (UK) Limited for the period (6 months ended 30 June 2015: £1,042,566) and £5,000 is payable to Eversholt Investment Limited (6 months ended 30 June 2015: £5,000)

The Company has paid Eversholt Rail (UK) Limited £31,957,467 for the procurement of maintenance of the rolling stock (6 months ended 30 June 2015: £18,713,311).

Included in trade and other receivables is a prepayment to Eversholt Rail (UK) Limited of £50,000 (year ended 31 December 2015: nil).

For the period ended 30 June 2016 no dividends were declared or paid to European Rail Finance Holdings Limited (6 months ended 30 June 2015: nil).

The Company leased assets from European Rail Finance Limited during 2015. The operating lease expense for 6 months ended 30 June 2015 of £49,225,554 was included in cost of sales.

17 Contingent liabilities

There were no contingent liabilities for the Company at 30 June 2016.

18 Subsequent events

On 2 August 2016 the Group signed contracts with First Greater Western Limited and Hitachi Rail Europe Limited to purchase and lease new rolling stock.

Finance Act 2016 received Royal Assent on 15th September 2016 thereby substantively enacting a reduction in corporation tax rate to 17% from 1 April 2020. This will result in a reduction of deferred tax liability.