European Rail Finance (GB) Limited

Annual report and financial statements
for the year ended 31 December 2015

Registered No: 02720809

Annual report and financial statements
for the year ended 31 December 2015

Contents

Strategic report
for the year ended 31 December 2015

Business review

European Rail Finance (GB) Limited (the "Company") is a company incorporated and domiciled in England and Wales under the Companies Act. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 24.

The Company receives income from the leasing of rolling stock and other assets. Eversholt Rail (UK) Limited, a subsidiary company, provides asset management and administrative services to the Company, charging an annual management fee.

In December 2015 the Company acquired assets and trade from another group undertaking, Eversholt Rail (380) Limited. During the same time the Company entered into the finance lease arrangement with another group undertaking, European Rail Finance Limited. Details of both transactions are more fully described in notes 11 and 15.

The business continues to be funded principally by a group undertaking through borrowings. The Company has no employees.

Risk management

The Company has established financial risk management objectives and policies. These objectives, together with an analysis of the exposure to such risks, are set out in note 22 of the financial statements.

The principal business risk for the Company is in respect of the 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.

The asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. The Company has an excellent knowledge of the current condition of its fleets.

The Company has developed a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis.

The fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, the Company works proactively with train operators to identify opportunities to improve the performance of its fleets. The Company maintains constant dialogue with the train operators on fleet performance so that any emerging issues can be dealt with quickly.

Strategic report (continued)
for the year ended 31 December 2015

Performance

The Company's results for the year under review are as detailed in the Income Statement on page 9.

The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual group cashflows in comparison with the planned cashflows determined at the inception of the lease transactions. Monthly management accounts are prepared at Group level and reviewed by the Directors.

Signed on behalf of the Board by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom
Date: 22 February 2016

Directors' report
for the year ended 31 December 2015

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2015.

Future developments

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2015 (2014: £70,500,000). Dividend payments will be reflected in the financial statements in the year 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

The Directors who served during the year were as follows:

M G Barker	Resigned 16 April 2015
A J Course	
P Gough	Resigned 16 April 2015
A Haines	
M B Kenny	
N King	Resigned 16 April 2015
K L Ludeman	
R Mani	Resigned 16 April 2015
D G Stickland	
J B Watt	Resigned 16 April 2015
P J White	Resigned 16 April 2015
J M Wilmott	Resigned 16 April 2015
H L Kam	Appointed 16 April 2015
W Barnes	Appointed 16 April 2015
A Hunter	Appointed 16 April 2015
D Chan	Appointed 16 April 2015
D Macray	Appointed 16 April 2015

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, in accordance with the provisions of the Companies Act 2006. 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 interest in the share capital of the Company, their interest in the holding company is more fully described in note 24.

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the 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.

Directors' report (continued)
for the year ended 31 December 2015

Disclosure of information to the auditor

Each person who is a director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

KPMG LLP have resigned as auditor of the Company. Pursuant to Section 487 of the Companies Act 2006, Deloitte LLP have been appointed as auditor.

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom
Date: 22 February 2016

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that 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;
- state whether they have been prepared in accordance with IFRSs as adopted 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility 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 responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Company's annual financial statements were approved by the Board of Directors on 22 February 2016 and signed on their behalf by:

M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY
United Kingdom

Independent Auditor's Report to the Members of European Rail Finance (GB) Limited

We have audited the financial statements of Eversholt Rail (UK) Limited for the year ended 31 December 2015, which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Director's responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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's 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 Strategic report and the Directors' 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 of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Members of European Rail Finance (GB) Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Makhan Chahal

Makhan Chahal (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square, London, EC4A 3BZ
United Kingdom

25th February 2016

Income statement
for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Revenue			
Operating lease income	*4*	**168,686**	177,269
Other income		**4,986**	-
Service charge income		**110**	100
Dividend income		**-**	20,000
Total revenue		**173,782**	197,369
Cost of sales	*5*	**(146,901)**	(151,224)
Gross Profit		**26,881**	46,145
Finance expense	*6*	**(6,256)**	(4,437)
Administrative expense	*7*	**(2,204)**	(2,674)
Profit on disposal of property, plant and equipment		**3,252**	-
Profit before tax		**21,673**	39,034
Income tax charge	*9*	**(1,476)**	(4,155)
Profit for the year		**20,197**	34,879

There were no discontinued or discontinuing operations during the year.

The notes on pages 13 to 28 form an integral part of these financial statements

Statement of comprehensive income
for the year ended 31 December 2015

There has been no comprehensive income or expense other than the profit for the year as shown above (2014: nil).

Statement of financial position
as at 31 December 2015

	Note	2015 £'000	2014 £'000
Assets			
Non-current assets			
Property, plant and equipment	*12*	**2,037,870**	213,948
Trade and other receivables	*13*	**4,908**	4,315
Investments in subsidiaries	*14*	**34,348**	34,348
		2,077,126	252,611
Current assets			
Trade and other receivables	*13*	**2,900**	4,441
Total assets		**2,080,026**	257,052
Liabilities and equity			
Current liabilities			
Obligations under finance lease	*15*	**5,890**	-
Trade and other payables	*16*	**16,126**	16,445
Current tax – amounts due to group relief		**-**	6,275
Deferred revenue	*17*	3,176	5,451
		25,192	28,171
Non-current liabilities			
Obligations under finance lease	*15*	**1,566,570**	-
Deferred revenue	*17*	**99,448**	41,028
Borrowings	*18*	**278,217**	114,215
Deferred tax	*19*	**39,619**	22,855
		1,983,854	178,098
Total liabilities		**2,009,046**	206,269
Equity			
Share capital	*20*	**50,000**	50,000
Retained earnings		**20,980**	783
Total equity		**70,980**	50,783
Total equity and liabilities		**2,080,026**	257,052

The notes on pages 13 to 28 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 22 February 2016. They were signed on its behalf by:

D G Stickland
Director

Company registration number 02720809

Statement of cash flows
for the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flow from operating activities		
Profit before tax	**21,673**	39,034
Adjustments for:		
- Dividend income	**-**	(20,000)
- Depreciation charge	**11,626**	10,438
- Profit on disposal of property, plant and equipment	**(3,252)**	-
- Finance expense	**6,256**	4,437
- Reversal of provision for design and endemic	**-**	(55)
Operating cash flow before changes in working capital	**36,303**	33,854
- Increase in obligations under finance lease	**1,572,460**	-
- Decrease in trade and other receivables	**948**	2,661
- Increase/(decrease) in deferred revenue	**(13,355)**	(6,423)
- (Decrease)/increase in trade and other payables	**(1,088)**	1,637
Cash flow generated by operating activities	**1,595,268**	31,729
Taxation paid	**(6,358)**	(12,769)
Net cash generated by operating activities	**1,588,910**	18,960
Cash flow from investing activities		
Addition of property, plant and equipment	**(97,284)**	(2,000)
Addition of property, plant and equipment from another group undertaking	**(1,741,922)**	-
Transfer of net liabilities from another group undertaking	**85,640**	
Dividend received	**-**	20,000
Proceeds from disposal of property, plant and equipment	**6,910**	-
Net cash (utilised in)/generated by investing activities	**(1,746,656)**	18,000
Cash flow from financing activities		
Intercompany loans raised	**-**	89,186
Intercompany loans repaid	**-**	(51,270)
Finance expenses paid	**(6,256)**	(4,437)
Movement in working capital loan with Eversholt Rail (UK) Limited	**163,907**	-
Dividends paid	**-**	(70,500)
Other Interest	**95**	61
Net cash generated by/(utilised in) financing activities	**157,746**	(36,960)
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 2015

	Share capital £'000	Retained earnings £'000	Total shareholder's equity £'000
Balance at 1 January 2014	50,000	36,404	86,404
Profit for the year	-	34,879	34,879
Dividends paid	-	(70,500)	(70,500)
Balance at 31 December 2014	**50,000**	**783**	**50,783**
Profit for the year	-	20,197	20,197
Balance at 31 December 2015	**50,000**	**20,980**	**70,980**

Dividends per share paid during the year is nil (2014: £1.41 per share).

Notes to the annual financial statements
for the year ended 31 December 2015

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, United Kingdom.

2 Basis of Preparation

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

2.1 Compliance with International Financial Reporting Standards

The financial statements of European Rail Finance (GB) Limited 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 2015, there were no unendorsed standards effective for the year ended 31 December 2015 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 2015 are prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the IFRS Interpretations Committee and its predecessor body.

The Company is exempt from the requirement to prepare consolidated financial statements by virtue of Section 400 of the Companies Act 2006. The financial statements present information about the company as an individual undertaking.

2.2 Standards and Interpretations issued by the IASB and endorsed by the EU

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 2015, 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 2015. 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 2018).
- IFRS 15 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).
- IFRS 9 Financial Instruments (mandatory for periods beginning on or after 1 January 2018). The impact resulting from the implication of this standard is currently being assessed by the Directors.
- IFRS 16 Leases (mandatory for periods beginning on or after 1 January 2019).
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (mandatory for periods beginning on or after 1 January 2017).

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

2 Basis of Preparation (continued)

2.3 Going concern

The financial statements has been assessed in conjunction with its 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 principal accounting policies adopted are set out below and have been applied consistently to all years presented in these financial statements.

3.1 Finance expense

Finance expense for all interest bearing financial instruments is recognised in '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 year.

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.

3.2 Borrowing costs

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.

Other borrowing costs are recognised in profit and loss in the year in which they are incurred.

3.3 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 year and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the relevant entity intends to settle on a net basis and the legal right to offset exists.

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

3 Summary of significant accounting policies (continued)

3.4 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 40 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. During the period the Directors extended the useful economic life of certain assets. This did not have a material impact on the financial statements.

In relation to the construction of rolling stock and other railway assets:

i) Progress payments paid to third parties are capitalised.

ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the construction of rolling stock and other railway assets and accrue in respect of the year of construction.

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

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.

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.

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.

3.5 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 years 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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

3 Summary of significant accounting policies (continued)

3.6 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.

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. The Company holds the following classes of financial assets.

3.6.1 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.

3.6.2 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.

3.6.3 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.

3.6.4 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 2015

3 Summary of significant accounting policies (continued)

3.6 Financial instruments (continued)

3.6.5 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.

3.7 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.

3.8 Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

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

3.9 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.

3.10 Use of assumptions and estimates

In the application of the Company's accounting policy, the Directors 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 ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of revision and future years if the revision affects both current and future years.

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

Depreciation is recognised so as to write off the cost of assets over their useful lives. In making their judgement of the useful life, 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 2015

3 Summary of significant accounting policies (continued)

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

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 leasee. All other leases are classified as operating leases. Operating lease income is recognised on a straight line basis over the lease term.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's policy on borrowing costs. Contingent rentals are recognised as expenses in the year in which they are incurred.

Finance charges in respect of assets acquired under finance leases are charged to the income statement over the year of the lease so as to give a constant periodic rate of finance cost. The capital element of the obligation to make future payments is included in liabilities.

3.13 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The provision is recognised as the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

4 Operating lease income

	2015	2014
	£'000	£'000
Rentals receivable from third parties	**168,686**	177,269

5 Cost of sales

	2015	2014
	£'000	£'000
Operating lease rental to European Rail Finance Limited	**(93,439)**	(99,080)
Depreciation	**(11,626)**	(10,438)
Maintenance cost	**(41,836)**	(41,761)
Provision for design and endemic faults	**-**	55
	(146,901)	(151,224)

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

6 Finance expense

	2015 £'000	2014 £'000
Interest payable to Eversholt Rail (UK) Ltd	**(6,170)**	(4,305)
Finance charges payable to Eversholt Funding plc	**(86)**	(110)
Other interest	**-**	(22)
	(6,256)	(4,437)

7 Administrative expense

Administrative expense includes the following:

	2015 £'000	2014 £'000
Management fees payable to Eversholt Rail (UK) Limited	**(2,128)**	(2,085)
Management fees payable to Eversholt Investment Limited	**(10)**	(10)
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	**(16)**	(16)

The Company has no employees and hence no staff costs (2014: nil).

8 Directors' emoluments

Three of the Directors have been remunerated by Eversholt Rail (UK) Limited at a cost of £2,390,000 (2014: £1,296,000). No specific charge has been made to the Company in this regard.

Two of the Directors have been remunerated by European Rail Finance (GB) Limited at a cost of £34,065 (2014: £356,436).

9 Income tax charge

	2015 £'000	2014 £'000
Current tax		
UK Corporation tax on current year profit	**1,402**	(12,355)
Adjustment in respect of prior year	**(83)**	-
	1,319	(12,355)
Deferred tax		
Origination and reversal of temporary differences	**(2,860)**	8,200
Adjustment in respect of prior years	**65**	-
	(2,795)	8,200
Income tax charge	**(1,476)**	(4,155)

The following table reconciles the tax charge which would apply if all profits had been taxed at the UK corporation tax rate:

	2015 £'000	2014 £'000
Taxation at corporation tax rate of 20.25% (2014: 21.49%)	**(4,388)**	(8,392)
Change in tax rate	**2,920**	(62)
Adjustment in respect of prior year	**(18)**	-
Amounts not deductible for tax purposes	**10**	-
Non taxable income	**-**	4,299
Income tax charge	**(1,476)**	(4,155)

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

10 Dividends

For the year ended 31 December 2015 the Company received no dividend income from Eversholt Rail (UK) Limited (2014: £20,000,000).

For the year ended 31 December 2015 no dividend has been paid to European Rail Finance Holdings Limited (2014: £70,500,000).

11 Acquisition of assets

On 31 December 2015, the Company acquired the trade and assets of another group undertaking, Eversholt Rail (380) Limited, at net book value. The value of the net assets transferred was £151,707,863 and there was no material difference between the fair value and net book value of the assets transferred. Consideration of £151,707,863 was paid in the form of an intercompany loan.

Assets	**£'000**
Rolling stock	169,462
Liabilities	
Current tax	1,402
Other payables	312
Deferred tax	13,969
Deferred revenue	2,071
	17,754
Net assets value	151,708

12 Property, plant and equipment

	Rolling stock and other railway assets £'000
Cost	
Balance at 1 January 2014	288,794
Additions	2,000
Balance at 31 December 2014	**290,794**
Additions	97,284
Disposals	(7,900)
Acquisitions from other group undertakings	1,741,922
Balance at 31 December 2015	**2,122,100**
Depreciation	
Balance at 1 January 2014	66,408
Charge for the year	10,438
Balance at 31 December 2014	**76,846**
Charge for the year	11,626
Disposals	(4,242)
Balance at 31 December 2015	**84,230**
Carrying value at 31 December 2015	**2,037,870**
Carrying value at 31 December 2014	213,948

In February the Company disposed of its entire freight wagon fleet, a Mark II coach and Mark II spares resulting in a profit of £3,251,863.

The cost of tangible fixed assets at 31 December 2015 includes capitalised interest of £2,490,025 (2014: £509,507).The capitalisation rate used is the rate of interest attaching to the Company's borrowings attributable to the acquisition of rolling stock.

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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

13 Trade and other receivables

	2015 £'000	2014 £'000
Current		
Trade receivables	**2,900**	4,441
Non-current		
Maintenance prepayment	**4,908**	4,315

14 Investments in subsidiaries

	2015 £'000	2014 £'000
At Cost		
At 1 January and 31 December	**34,348**	34,348

The principal subsidiary undertakings of the Company at the end of the year were:

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2015	Ownership Percentage 2014
Eversholt Rail Holdings (UK) Limited	Ordinary Shares	England	Investment	100	100
Eversholt Rail (UK) Limited*	Ordinary Shares	England	Management services	100	100
Eversholt Depot Finance (UK) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (380) Limited*	Ordinary Shares	England	Leasing	100	100

**Indirect subsidiaries*

15 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 lessor's rolling stock assets at a market value of £1,572,459,900 calculated at net present value of lease rentals. The finance lease arrangement is in place for the duration of the useful economic lives of the respective rolling stock assets.

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.

In addition the Company acquired from the lessor net liabilities of £67,888,501 at net book value consisting mainly of maintenance reserve balances (deferred revenue). Consideration of £67,888,501 was paid in the form of an intercompany loan.

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

15 Obligations under finance lease (continued)

	2015 £'000	2014 £'000
Total future minium lease payments		
No later than one year	100,600	-
Later than one year and no later than five years	585,200	-
Later than five years	2,154,100	-
Gross finance lease obligation	2,839,900	-
Future finance costs	(1,267,440)	-
Present value of lease obligations	1,572,460	-
Present value of minimum lease payments		
No later than one year	5,890	-
Later than one year and no later than five years	191,080	-
Later than five years	1,375,490	-
	1,572,460	-

16 Trade and other payables

	2015 £'000	2014 £'000
Rentals received in advance	6,391	4,568
Trade payables	4,670	7,116
Other payables	4,434	3,606
Accruals	631	1,155
	16,126	16,445

17 Deferred Revenue

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

	2015 £'000	2014 £'000
Current	3,176	5,451
Non-current	99,448	41,028

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

18 Borrowings

	2015 £'000	2014 £'000
Non-current		
31 December 2015		
Eversholt Rail (UK) Limited	272,613	108,706
Bank loan	5,604	5,509
	278,217	114,215

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

18 Borrowings (continued)

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 (2014: group's senior debt, plus margin).

The bank loan from HSBC Bank plc is secured against assets of Fleet 365. It is classified as non-current as it is repayable in 2021 (2014: secured and non-current). Interest on the loan is payable six-monthly at a floating rate of GBP LIBOR (2014: GBP LIBOR).

Maturity of borrowings

The maturity profile of the carrying amount of the Company's non-current borrowings at 31 December 2015 was as follows:

	2015 £'000	2014 £'000
In more than one year but not more than two years	-	-
In more than two years but not more than five years	272,613	108,706
In more than five years	5,604	5,509
	278,217	114,215

19 Deferred tax

Leasing transactions temporary differences:	2015 £'000	2014 £'000
Balance at beginning of the year	22,855	31,055
Amount arising from temporary differences	5,715	(8,262)
Change in tax rate	(2,920)	62
Transfers from other group undertakings	13,969	-
Balance at end of the year	39,619	22,855

The corporation tax rate of 21% effective from 1 April 2014 reduced further by 1% to 20% for the tax year beginning 1 April 2015. Further reductions to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 18 November 2015. This reduction in the corporation tax rate from 21% to 20% results in weighted average rate of 20.25% (2014: 21.49%).

As a result of this reduction the company's future current tax charge will reduce accordingly. The deferred tax at 31 December 2015 has been calculated based on rates of 18% substantively enacted at the reporting date. The effect of the change in the rate to 18% was included in the financial statements. No additional change included in the year.

20 Share capital

	2015 £'000	2014 £'000
Authorised, allotted, called up and fully paid		
50,000,002 Ordinary shares of £1 each	50,000	50,000

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

21 Capital commitments

	2015 £'000	2014 £'000
In respect of capital expenditure	**442,408**	3,776

The above represents all capital commitments, including a contract entered into during the year to purchase and lease 173 new AT300 vehicles. Previously, capital commitments only considered those falling due within one year.

22 Risk Management

The Company has exposure to the following types of risk arising from its use of financial instruments: credit risk, liquidity risk and market risk. Market risk includes interest rate risk and foreign exchange risk. In addition the Company is exposed to residual value risk from its ownership of rail assets.

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

Residual value risk

One of the key drivers of the Company's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the current lease terms (the "residual values") differ from those projected at the inception of the leases. The Company regularly monitors residual ivalue 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 the Company is able to continue as going concern. Consideration is given to the availability, 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 capital structure of the Company consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

The Board formally reviews the capital structure on a semi-annual basis and reviews capital distribution. As part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Board actively monitors the cost and availability of funding.

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. All outstanding balances have been received subsequent to year end.

Notes to the annual financial statements (continued)

for the year ended 31 December 2015

22 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.

Contractual undiscounted cash flows from the company's assets and liabilities are analysed below by their contractual due date:

	Carrying value	Total undiscounted cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2015						
Financial assets						
Loans and receivables						
- Trade and other receivables	7,808	7,808	-	2,900	4,908	-
Financial liabilities						
Non-derivative instruments – amortised cost						
- Obligations under finance lease	1,572,460	2,839,900	-	100,600	585,200	2,154,100
- Trade and other payables	16,126	16,126	-	16,126	-	-
- Borrowings	272,613	272,613	-	-	272,613	-
- Bank loan	5,604	5,604	-	-	-	5,604
	1,866,803	3,134,243	-	116,726	857,813	2,159,704
Total financial instruments	(1,858,995)	(3,126,435)	-	(113,826)	(852,905)	(2,159,704)
31 December 2014						
Loans and receivables						
- Trade and other receivables	8,756	8,756	-	4,441	4,315	-
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	16,445	16,445	-	16,445	-	-
- Borrowings	108,706	108,706	-	-	108,706	-
- Bank loan	5,509	5,509	-	-	-	5,509
	130,660	130,660		16,445	108,706	5,509
Total financial instruments	(121,904)	(121,904)	-	(12,004)	(104,391)	(5,509)

There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2015 (2014: nil).

Undiscounted cash flows in respect of the intercompany loan 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.

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

22 Risk Management (continued)

Market risk management

Foreign currency risk

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

Interest rate risk

The Company has exposure to fluctuations 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 a decrease in intercompany working capital interest expense of £63,964. These financial statements are presented in sterling being the Company's functional currency All amounts have been rounded to the nearest thousand, unless otherwise indicated.

23 Operating lease arrangements

The Company as lessor

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

	2015 £'000	2014 £'000
Within one year	**335,433**	150,141
2-5 years	**744,520**	416,443
Over 5 years	**246,917**	15,967
	1,326,870	582,551
Aggregate operating lease rentals receivable in the year	**172,168**	182,907

Future minimum lease payments payable to group undertakings under non-cancellable operating leases:

	2015 £'000	2014 £'000
No later than one year	-	75,022
Later than one year and no later than five years	-	230,226
Later than five years	-	10,407
	-	315,655
Aggregate operating lease rentals payable during the year	**93,439**	99,080

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

24 Related-party transactions

24.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 4) and with its fellow group undertakings of the Eversholt Rail Group, namely:

- European Rail Finance Holdings Limited
- Eversholt Investment Limited
- European Rail Finance 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 (2) Limited

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited. It was previously 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 CK Hutchison Holdings Limited. The immediate holding company is European Rail Finance Holdings Limited. The result of the Company is included in the Group financial statements of CK Hutchison Holdings Limited.

Copies of the Group financial statements may be obtained from the following address:
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

24.2 Transactions with related parties

Dividend income and dividends paid are more fully described in note 10. The Company has loans with related parties, more fully described in note 18. Interest on the loans is more fully described in note 6.

The Company paid management fees to Eversholt Rail (UK) Limited of £2,127,800 (2014: £2,085,131). The Company paid management fees to Eversholt Investment Limited of £10,000 (2014: £10,000).

The Company leased assets from European Rail Finance Limited. The operating lease expense of £93,438,996 is included in cost of sales (2014: £99,079,986).

The Company has paid Eversholt Rail (UK) Limited £38,588,213 for the procurement of maintenance of the rolling stock (2014: £36,128,098).

The Company received service charge income of £110,000 from Eversholt Investment Limited (2014: £100,000).

Notes to the annual financial statements (continued)
for the year ended 31 December 2015

24 Related-party transactions (continued)

24.2 Transactions with related parties (continued)

The Directors held the following interests in Eversholt Investment Group (Luxembourg) s.a.r.l.:

Preferred Equity Certificates	**MB Kenny**
Certificates held at 31 December 2013	365,626
Certificates redeemed	(44,058)
Certificates held at 31 December 2014	**321,568**
Certificates redeemed	(321,568)
Certificates held at 31 December 2015	**-**

Ordinary shares held	
Shares held at 31 December 2013 and 2014	**901**
Shares redeemed	(901)
Shares held at 31 December 2015	**-**

25 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2015 (2014: nil).

26 Subsequent events

On 21 January 2016 the Group signed contracts with Arriva Rail North Limited and Construcciones y Auxiliar de Ferrocarriles to purchase and lease new diesel and electric rolling stock for the new Northern rail franchise.