European Rail Finance Limited

Annual report and financial statements
for the year ended 31 December 2016

Registered No: IR443563

European Rail Finance Limited

Annual report and financial statements
for the year ended 31 December 2016

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Directors' report
for the year ended 31 December 2016

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2016.

Principal activities

On 31 December 2015 the place of central management and control of European Rail Finance Limited (the "Company") was transferred to the UK. As a result of this transfer, the Company became tax resident in the UK on 31 December 2015. On the same date, the Company entered into a finance lease arrangement to lease its rolling stock assets to another group undertaking, European Rail Finance (GB) Limited. Details of the transaction are more fully described in note 11. The Company's principal activity is the provision of this finance lease arrangement. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 22.

Business review

During the year the rental obligations under the finance lease were prepaid by European Rail Finance (GB) Limited. See note 14 for futher details.

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

The business is funded principally by Eversholt Rail (UK) Limited. The Company has no employees.

Risk management

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

Performance

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

The Group is financed by a mix of equity and senior debt. The terms of senior debt require compliance with certain covenants and ratios which are calculated and forecast as part of monthly internal management reporting. In addition to key financial measures, the Group monitors a number of key non-financial indicators relating to asset performance including condition, reliability and maintenance as well as the number and value of off-lease assets.

The Group manages its operations on a consolidated basis, therefore the Company's directors believe that further specific performance measures for the company are not necessary or appropriate for an understanding of its performance.

Future developments

No further 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 2016 (2015: £49,000,000). 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' report (continued)
for the year ended 31 December 2016

Directors

The Directors who served during the year and up to the date of signing were as follows:

M B Kenny	
A J Course	
D G Stickland	Resigned 20 July 2016
A J Wesson	Appointed 20 July 2016

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company.

Capital management

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

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

Disclosure of information to the auditor

Each person who is a director at the date of approval of this annual 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 Sections 281 to 285 of the Companies Act 2014 with regard to books of account by employing a service provider, which has appropriate expertise and provides adequate resources to the financial function. The books of account of the Company are maintained primarily by Eversholt Rail (UK) Limited, 210 Pentonville Road, London N1 9JY and held by European Rail Finance Limited, Newmount House, 22-24 Mount Street Lower, Dublin 2, Ireland.

Auditor

Pursuant to Section 383(2) of the Companies Act 2014, the Auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Signed on behalf of the Board by:

M B Kenny
Director

A J Wesson
Director

Newmount House
22-24 Mount Street Lower
Dublin 2
Ireland

13 February 2017

Statement of Directors' responsibilities
for the year ended 31 December 2016

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, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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 International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 2014. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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.

These financial statements were approved by the Board of Directors on 13 February 2017 and were signed on its behalf by:

M B Kenny
Director

A J Wesson
Director

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

Independent Auditor's report to the Members of European Rail Finance Limited

for the year ended 31 December 2016

We have audited the financial statements of European Rail Finance Limited for the financial year ended 31 December 2016 which comprise 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 24. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("relevant financial reporting framework").

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. 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 auditors' 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 auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with the Companies Act 2014 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 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 of the assets, liabilities and financial position of the Company as at 31 December 2016 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

Matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the Directors' report is consistent with the financial statements.

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

for the year ended 31 December 2016

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

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

13th February 2017

Income statement
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue			
Operating lease income	*4*	-	231,376
Other income		-	1,424
Total revenue		-	232,800
Cost of sales	*5*	-	(76,938)
Gross profit		-	155,862
Finance income	*6*	**25,921**	-
Finance expense	*7*	**(14,895)**	(64,089)
Other expenses		-	(4,415)
Administrative expense	*8*	**(144)**	(16,498)
Profit on disposal of property, plant and equipment		**12**	463,093
Profit before tax		**10,894**	533,953
Income tax charge	*9*	**(6,832)**	(20,890)
Profit for the year		**4,062**	513,063

There were no discontinued or discontinuing operations during the year. For prior year discontinued operations please refer to note 11.

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

Statement of comprehensive income
for the year ended 31 December 2016

There has been no comprehensive income or expense other than the profit for the year as shown above (2015: £nil).

The financial statements were approved by the Board of Directors and authorised for issue on 13 February 2017. They were signed on its behalf by:

M B Kenny
Director

A J Wesson
Director

Company registration number: IR443563

Statement of financial position
as at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Loan receivable	*13*	**558,776**	-
Finance lease receivable	*14*	**-**	1,566,570
		558,776	1,566,570
Current assets			
Finance lease receivable	*14*	**-**	5,890
Trade and other receivables	*15*	**-**	121
		-	6,011
Total assets		**558,776**	1,572,581
Liabilities and equity			
Current liabilities			
Trade and other payables	*16*	**565**	6,751
Current tax		**25,851**	25,621
		26,416	32,372
Non-current liabilities			
Borrowings	*17*	**-**	988,238
Current tax		**-**	23,673
		-	1,011,911
Total liabilities		**26,416**	1,044,283
Equity			
Share capital	*19*	**50,000**	50,000
Retained earnings		**482,360**	478,298
Total equity		**532,360**	528,298
Total equity and liabilities		**558,776**	1,572,581

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

The financial statements were approved by the Board of Directors and authorised for issue on 13 February 2017. They were signed on its behalf by:

M B Kenny
Director

A J Wesson
Director

Company registration number: IR443563

Statement of cash flows
for the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flow from operating activities		
Profit before tax	**10,894**	533,953
Adjustments for:		
- Depreciation charge	**-**	76,869
- Profit on disposal of property, plant and equipment	**(12)**	(463,093)
- Finance income	**(25,921)**	-
- Finance expense	**14,895**	64,089
Operating cash flow before movement in working capital	**(144)**	211,818
Decrease/(increase) in finance lease receivable	**1,572,460**	(1,572,460)
Decrease in trade and other receivables	**121**	100
(Decrease)/increase in trade and other payables	**(6,186)**	5,158
Decrease in deferred revenue	**-**	(45,442)
Tax paid	**(30,275)**	-
Net cash generated by/(utilised in) operating activities	**1,535,976**	(1,400,826)
Cash flow from investing activities		
Acquisition of property, plant and equipment	**-**	(32,426)
Disposal of property, plant and equipment to other group undertaking	**-**	1,572,460
Proceeds on disposal of property, plant and equipment	**12**	47,138
Net cash generated by investing activities	**12**	1,587,172
Cash flow from financing activities		
Movement in working capital loan with Eversholt Rail (UK) Limited	**(1,547,014)**	(73,257)
Finance income received	**25,921**	-
Finance expense paid	**(14,895)**	(64,089)
Dividends paid	**-**	(49,000)
Net cash utilised in financing activities	**(1,535,988)**	(186,346)
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 2016

	Note	Share capital £'000	Retained earnings £'000	Total shareholder's equity £'000
Balance at 1 January 2015	*19*	50,000	14,235	64,235
Profit for the year		-	513,063	513,063
Dividends paid	*10*	-	(49,000)	(49,000)
Balance at 31 December 2015		**50,000**	**478,298**	**528,298**
Profit for the year		-	4,062	4,062
Balance at 31 December 2016		**50,000**	**482,360**	**532,360**

During the year the Company paid a dividend of nil per share (2015: £0.98 per share).

Notes to the annual financial statements
for the year ended 31 December 2016

1 General Information

European Rail Finance Limited (the "Company"), is a private company incorporated and domiciled in the Republic of Ireland under the Companies Act and is limited by authorised shares (see note 19). On 31 December 2015 the place of central management and control of European Rail Finance Limited (the "Company") was transferred to the UK. As a result of this transfer, the Company became tax resident in the UK on 31 December 2015.

2 Basis of Preparation

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.

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 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these Company financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the year ended 31 December 2016 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 IFRS Interpretations Committee 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 2016, 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 2016. 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.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (mandatory for periods beginning on or after 1 January 2018).
- Amendments to IAS 7 (January 2016) Disclosure Initiative (mandatory for periods beginning on or after 1 January 2017).
- 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).
- IFRS 9 Financial Instruments (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).
- Clarifications to IFRS 15 (April 2016) Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2018).

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

2 Basis of Preparation (continued)

2.3 Going concern

The Company's forecasts and projections taking account of reasonably possible changes in trading performance show that the Company, having the commitment of support from the parent, has adequate resources to continue in the operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing financial statements.

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 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 liabilities. 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.

3.2 Fees and commission income

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

3.3 Finance income and expense

Finance income and expense for all interest bearing financial instruments is recognised in 'Finance income' and 'Finance expense' in the Income statement using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

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

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

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

3.4 Income tax

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

3.4 Income tax (continued)

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

Deferred tax is calculated using the tax rates expected to apply in the 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 reporting year.

3.5 Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the year. Any resulting exchange differences are included in the Income statement.

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

3.6 Property, plant and equipment

In the normal course of business, rolling stock and other railway assets are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. Useful lives and residual values are reviewed bi-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 2015 the Directors extended the estimated 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 depreciation charge is included in the Income statement.

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset.

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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

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 the Income statement. The associated credit is recognised in the Income statement.

3.7 Financial instruments

3.7.1 Financial assets

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

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

The Company holds the following classes of financial assets.

3.7.1.1 Loans and receivables

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

3.7.1.2 Cash and cash equivalents

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

3.7.2 Financial liabilities

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

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

3.7.3 Impairment of financial assets

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

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.3 Impairment of financial assets (continued)

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

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

3.7.4 Offsetting financial assets and financial liabilities

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

3.8 Statement of cash flows

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

3.9 Share capital

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

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

3.10 Determination of fair value

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

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

3.11 Use of assumptions and estimates

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the 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 critical judgement that management have made in the process of applying the Company's accounting policies that had the most significant effect on the amounts recognised in the financial statements is in respect of depreciation.

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

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

3.12 Leases

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

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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

4 Operating lease income

	2016 £'000	2015 £'000
Rental income from third parties	-	137,937
Rental income from European Rail Finance (GB) Limited	-	93,439
	-	231,376

5 Cost of sales

	2016 £'000	2015 £'000
Depreciation	-	(76,869)
Maintenance cost	-	(69)
	-	(76,938)

6 Finance income

	2016 £'000	2015 £'000
Interest receivable from European Rail Finance (GB) Limited	25,921	-

7 Finance expense

	2016 £'000	2015 £'000
Interest payable to Eversholt Rail (UK) Ltd	(14,895)	(60,517)
Finance charges payable to Eversholt Funding plc	-	(2,124)
Other interest	-	(1,448)
	(14,895)	(64,089)

8 Administrative expense

Administrative expense includes the following:

	2016 £'000	2015 £'000
Management fee payable to Eversholt Rail (UK) Limited	(100)	(14,192)
Management fee payable to Eversholt Investment Limited	(10)	(60)
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	(25)	(17)
Foreign exchange gain	-	1

The Company has no employees and hence no staff costs (2015: £nil). The Directors have been paid by another group undertaking. No specific charge has been made to the Company in this regard.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

9 Income tax charge

	Note	2016 £'000	2015 £'000
Current tax			
UK corporation tax on current year profit		**(2,179)**	-
Irish corporation tax on current year profit		**-**	(25,621)
Prior year adjustment		**(4,653)**	-
Overseas tax		**-**	(23,673)
		(6,832)	(49,294)
Deferred tax			
Origination and reversal of temporary differences	*18*	**-**	28,404
Income tax charge		**(6,832)**	(20,890)

The Irish corporation tax rate applying to the Company in 2015 was 12.5%. The UK coporation tax rate applying to the Company in 2016 was 20%. The following table reconciles the tax charge which would apply if all profits had been taxed at the UK corporation tax rate:

	2016 £'000	2015 £'000
Taxation at UK corporation tax rate of 20%	**(2,179)**	-
Taxation at Irish corporation tax rate of 12.5% (2015: 12.5%)	**-**	(66,744)
Permanent tax effects	**-**	45,850
Prior year adjustment in respect of foreign exchange	**(4,653)**	4
Income tax charge	**(6,832)**	(20,890)

On 31 December 2015 the place of central management and control was transferred to the UK. As a result of this transfer, the Company became tax resident in the UK on 31 December 2015.

10 Dividends

For the year ended 31 December 2016 no dividends were paid to European Rail Finance (2) Limited (2015: £49,000,000).

11 Discontinued operations

On 31 December 2015, the Company entered into a finance lease arrangement with another group undertaking, European Rail Finance (GB) Limited ("lessee"), to lease its own rolling stock assets at a market value of £1,572,459,900. Consequently the Company recognised a finance lease receivable in its books of £1,572,459,900, calculated by discounting future lease rental receivables, and derecognised corresponding rolling stock assets. The finance lease arrangement is in place for the duration of the estimated useful economic lives of the rolling stock assets.

At the time of the transaction the net book value of fixed assets derecognised was £1,132,219,662 resulting in a profit on sale of £440,240,238 recognised in the Income statement of the Company.

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

	2015 £'000
Assets	
Property, plant and equipment	**1,132,220**
Liabilities	
Other payables	**460**
Deferred revenue	**67,429**
Total liabilities	**67,889**
Net assets value	**1,064,331**

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

11 Discontinued operations (continued)

The Company incurred £2,069,522 of costs relating to the above transactions and comprised mainly of professional and legal costs. These costs were recognised in the Income statement of the Company.

In February 2015 the Company disposed of its entire freight wagon fleet resulting in a profit of £22,853,178.

12 Property, plant and equipment

	Rolling stock £'000
Cost	
Balance at 1 January 2015	**1,946,799**
Additions	32,426
Disposals	(38,687)
Disposals to other group undertaking	(1,940,538)
Balance at 31 December 2015 and 2016	-
Depreciation	
Balance at 1 January 2015	**745,851**
Charge for the year	76,869
Depreciation on disposals	(14,402)
Depreciation on disposals to other group undertaking	(808,318)
Balance at 31 December 2015 and 2016	-
Carrying value at 31 December 2015 and 2016	-

13 Loan Receivable

	2016 £'000	2015 £'000
Non-current		
Eversholt Rail (UK) Limited	558,776	-

The intragroup working capital loan to Eversholt Rail UK Limited is classified as non-current as it is repayable on 4 November 2018. See note 17 for further details.

14 Finance lease receivable

In 2015 the Company entered into a finance lease arrangement with another group undertaking, European Rail Finance (GB) Limited, and recognised a finance lease receivable.

	2016 £'000	2015 £'000
Gross investment in finance leases		
Amounts falling due:		
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 investment in finance leases	-	2,839,900
Unearned finance income	-	(1,267,440)
Net investment in finance leases less provisions	-	1,572,460
Amortisation of finance lease receivables:		
Amounts falling due:		
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
Present value of minimum lease receivables	-	1,572,460
Fair value of amounts receivable under finance leases	-	1,572,460
Aggregate finance lease rentals receivable in the year	25,921	-

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

14 Finance lease receivable (continued)

The fair value of fixed rate finance lease receivable is calculated by discounting future lease rental receivables, using the Company's average cost of borrowing. The fair values are not considered to be significantly different from the carrying value.

The finance lease arrangement is in place for the duration of the estimated useful economic lives of the rolling stock assets.

The interest rate inherent in the lease was fixed at the contract date for the lease term. The effective interest rate contracted is 6.6% (2015: 6.6%) per annum.

The maximum exposure to credit risk of finance lease receivables for the current and prior years is the carrying amount. On 1st April 2016 the total rental obligations under the finance lease were prepaid by European Rail Finance (GB) Limited which was financed by a term loan granted by Eversholt Rail (UK) Limited.

15 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	-	121

16 Trade and other payables

	2016 £'000	2015 £'000
Trade Payables	-	111
Accruals	565	6,640
	565	6,751

17 Borrowings

Non-current	2016 £'000	2015 £'000
Eversholt Rail (UK) Limited	-	988,238

The intragroup working capital loan with Eversholt Rail (UK) Limited is classified as non-current as it is repayable on 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: Group's senior debt, plus margin). See note 13 for further details.

Maturity of borrowings

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

	2016 £'000	2015 £'000
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	988,238
In more than five years	-	-
	-	988,238

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

18 Deferred tax

Leasing transactions temporary differences:	2016 £'000	2015 £'000
Balance at the beginning of the year	-	28,404
Income statement credit	-	(28,404)
Balance at the end of the year	-	-

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

19 Share capital

	2016 £'000	2015 £'000
Authorised		
100,000,000 Ordinary shares of £1 each	**100,000**	100,000
Allotted, called up and fully paid		
50,000,001 Ordinary shares of £1 each	**50,000**	50,000

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

20 Risk management

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

Residual value risk

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

Capital risk management

The Board actively monitors the capital structure of the Company to ensure that it is able to continue as a going concern. Consideration is given to the costs and risks associated with each class of capital and to maximising the return to stakeholders through the optimisation of the debt to equity ratio.

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

Credit risk management

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

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

There are no lease receivables.

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

20 Risk management (continued)

Liquidity risk management

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

The Company's assets, net of deferred tax, are funded principally by equity and retained earnings.

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

	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
31 December 2016						
Financial assets						
Loans and receivables						
- Intercompany loan receivable	**558,776**	**558,776**	**-**	**-**	**558,776**	**-**
Financial liabilities						
Non-derivative instruments- Amortised cost						
- Trade and other payables	**565**	**565**	**-**	**565**	**-**	**-**
Total financial instruments	**558,211**	**558,211**	**-**	**(565)**	**558,776**	**-**
31 December 2015						
Financial assets						
Loans and receivables						
- Trade and other receivables	121	121	-	121	-	-
- Finance lease receivable	1,572,460	2,839,900	-	100,600	585,200	2,154,100
	1,572,581	2,840,021	-	100,721	585,200	2,154,100
Financial liabilities						
Non-derivative instruments- Amortised cost						
- Trade and other payables	6,751	6,751	-	6,751	-	-
- Intercompany working capital loan	988,238	988,238	-	-	988,238	-
	994,989	994,989	-	6,751	988,238	-
Total financial instruments	577,592	1,845,032	-	93,970	(403,038)	2,154,100

There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2016 (2015: nil).

Undiscounted cash flows in respect of the intercompany loan with Eversholt Rail (UK) Limited include the principal amount of working capital loans only, due to the 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 2016

20 Risk management (continued)

Market risk management

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

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

Interest rate sensitivity analysis

The impact of a 50 basis points increase in GBP LIBOR would have resulted in a decrease in intercompany working capital interest expense of £2,137,992. The sensitivity analysis is applied to the deposit rate and performed on the monthly balance of the relevant financial instrument.

21 Operating lease arrangement

At the reporting date, the Company had no contracts with lessees for future minimum lease payments.

	2016 £'000	2015 £'000
Aggregate operating lease rentals receivable in the year	-	231,376

22 Related-party Transactions

22.1 Identity of related parties

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

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

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited, incorporated in Hong Kong. The parent undertaking of the largest and smallest 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 (2) Limited. The results of the Company are 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

22.2 Transactions with related parties

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

Loans with related parties are more fully described in notes 13 and 17. Interest receivable/(payable) on these loan accounts are more fully described in notes 6 and 7.

The finance lease receivable with European Rail Finance (GB) Limited is more fully described in note 14.

A management fee of £100,000 has been paid to Eversholt Rail (UK) Ltd (2015: £14,191,839). A management fee of £10,000 has been paid to Eversholt Investment Ltd (2015: £60,000).

Notes to the annual financial statements (continued)
for the year ended 31 December 2016

23 Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2016 (2015: nil).

24 Subsequent events

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