

**Eversholt Investment Limited
(Security Group)**

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

Registered No: IR490363

Condensed, consolidated interim financial statements
for the 6 months ended 30 June 2016

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Condensed, consolidated income statement
for the 6 months ended 30 June 2016

		6 months ended	
	Notes	30 June 2016	30 June 2015
		£'000	£'000
Revenue			
Finance lease income		381	397
Operating lease income		145,200	140,607
Maintenance income		36,205	42,443
Other income		1,086	1,115
Total income		182,872	184,562
Cost of sales	4	(82,927)	(96,598)
Gross profit		99,945	87,964
Finance income	5	122	190
Finance expense	6	(65,852)	(67,767)
Net fair value (loss)/gain on derivatives		(77,347)	10,156
Administrative expense	7	(9,986)	(12,061)
Profit on disposal of property, plant and equipment		-	30,807
(Loss)/profit before tax		(53,118)	49,289
Income tax credit/(charge)		5,853	(18,894)
(Loss)/profit for the period		(47,265)	30,395

There were no discontinued or discontinuing operations during the period.

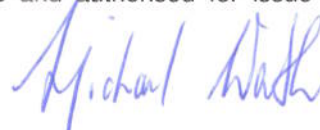
Condensed, consolidated statement of comprehensive income
for the 6 months ended 30 June 2016

		6 months ended	
	Notes	30 June 2016	30 June 2015
		£'000	£'000
(Loss)/profit for the period		(47,265)	30,395
Other comprehensive income			
Actuarial losses on defined benefit scheme		-	(735)
Tax credit in respect of actuarial losses on defined benefit scheme		-	149
Effective portion of changes in fair value of cash flow hedges		(28,463)	-
Realised gain on cash flow hedges		(1,319)	-
Tax credit on changes in effective portion of changes in fair value of cash flow hedges		5,361	-
Total comprehensive (expense)/income for the period		(71,686)	29,809

The notes on pages 6 to 13 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 27 September 2016. They were signed on its behalf by:


C Cullen
Director


M Walsh
Director

Company registration number: IR490363

Condensed, consolidated statement of financial position
as at 30 June 2016

		30 June 2016 £'000	31 December 2015 £'000
Assets	Notes		
Non-current assets			
Property, plant and equipment	8	1,845,589	1,708,407
Finance lease receivables		7,747	8,241
Trade and other receivables	9	-	4,908
Derivative financial instruments	11	20,644	860
Deferred tax	10	41,281	18,875
Investment in subsidiary		2,835	2,835
		<u>1,918,096</u>	<u>1,744,126</u>
Current assets			
Inventory		1,252	1,355
Finance lease receivables		953	896
Trade and other receivables	9	28,653	33,264
Cash and cash equivalents	12	38,621	72,655
		<u>69,479</u>	<u>108,170</u>
Total assets		<u>1,987,575</u>	<u>1,852,296</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	14	40,053	43,494
Current tax		28,215	24,312
Borrowings	15	112,275	32,604
Deferred revenue	13	3,221	3,176
Derivative financial instruments	11	6	-
Provisions		114	1,154
		<u>183,884</u>	<u>104,740</u>
Non-current liabilities			
Retirement benefit obligation	17	2,763	2,763
Borrowings	15	1,707,815	1,725,607
Amounts owed to Eversholt Rail (365) Limited		33,818	31,375
Current tax		23,673	23,673
Deferred tax	10	51,841	44,552
Deferred revenue	13	110,816	106,211
Derivative financial instruments	11	220,142	88,866
		<u>2,150,868</u>	<u>2,023,047</u>
Total liabilities		<u>2,334,752</u>	<u>2,127,787</u>
Equity			
Share capital		12	12
Share premium account		13,660	13,660
Accumulated deficit		(336,428)	(289,163)
Hedge reserve		(24,421)	-
Total equity		<u>(347,177)</u>	<u>(275,491)</u>
Total equity and liabilities		<u>1,987,575</u>	<u>1,852,296</u>

The notes on pages 6 to 13 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 27 September 2016. They were signed on its behalf by:


C Cullen
Director

Company registration number: IR490363


M Walsh
Director

Condensed, consolidated statement of cash flows
for the 6 months ended 30 June 2016

	Note	6 months ended	
		30 June 2016 £'000	30 June 2015 £'000
Cash flows from operating activities			
(Loss)/profit before tax		(53,118)	49,289
Adjustments for:			
- Depreciation		54,352	62,185
- Write down in the value of inventory		103	103
- Fair value adjustment on derivative financial instruments		77,347	(10,156)
- Profit on disposal of property, plant and equipment		-	(30,807)
- Unwinding of capitalised finance charges		1,872	1,942
- Interest income		(122)	(190)
- Interest on borrowings		63,980	65,825
- Non-cash element of pension charge		-	76
Operating cash flow before changes in working capital		144,414	138,267
Decrease in finance lease receivables		437	404
Decrease/(increase) in trade and other receivables		9,519	(19,360)
Increase in deferred revenue		3,699	17,926
(Decrease)/increase in provisions		(1,040)	143
Decrease in trade and other payables		(3,025)	(1,566)
Cash generated by operating activities		154,004	135,814
Tax paid		-	(7,442)
Interest received		122	161
Realised loss on derivative financial instruments		5,689	-
Net cash generated by operating activities		159,815	128,533
Investing activities			
Acquisition of property, plant and equipment		(192,858)	(12,901)
Proceeds from disposal of property, plant and equipment		-	54,041
Net cash (utilised in)/generated by investing activities		(192,858)	41,140
Financing activities			
Loans raised		80,000	-
Interest on bank loans		(189)	(3,716)
Interest on bonds		(35,186)	(34,878)
Interest on Eversholt Investment Group (Luxembourg) Sarl loan		(25,573)	(23,749)
Profit participating preference dividends		(545)	(661)
Interest on derivative financial instruments		(2,439)	(2,924)
Finance expenses		(1,059)	(504)
Other interest		484	-
Increase/(decrease) in loan from Eversholt Rail (365) Limited		2,443	(9,070)
Bank loans repaid		-	(35,000)
Shareholder loan repaid		(18,927)	-
Dividend paid		-	(20,751)
Net cash utilised in financing activities		(991)	(131,253)
Net (decrease)/increase in cash and cash equivalents		(34,034)	38,420
Cash and cash equivalents at beginning of the period		72,655	37,487
Cash and cash equivalents at end of the period	12	38,621	75,907

Condensed, consolidated statement of changes in equity
for the 6 months ended 30 June 2016

	Called up share capital £'000	Share premium £'000	Hedge reserve £'000	Accumulated deficit £'000	Total shareholders' equity £'000
Balance at 1 January 2015 as previously reported	12	13,660	-	(319,221)	(305,549)
Profit for the year	-	-	-	50,690	50,690
Dividend paid	-	-	-	(20,751)	(20,751)
Actuarial gains on defined benefit scheme after tax	-	-	-	119	119
Balance at 31 December 2015	12	13,660	-	(289,163)	(275,491)

	Called up share capital £'000	Share premium £'000	Hedge reserve £'000	Accumulated deficit £'000	Total shareholders' equity £'000
Balance at 1 January 2016	12	13,660	-	(289,163)	(275,491)
Loss for the period	-	-	-	(47,265)	(47,265)
Effective portion of changes in fair value of cash flow hedges	-	-	(28,463)	-	(28,463)
Realised gain on cash flow hedges	-	-	(1,319)	-	(1,319)
Tax credit on changes in effective portion of changes in fair value of cash flow hedges	-	-	5,361	-	5,361
Balance at 30 June 2016	12	13,660	(24,421)	(336,428)	(347,177)

Notes to the condensed, consolidated interim financial statements
for the 6 months ended 30 June 2016

1 General information

Eversholt Investment – Security Group includes all companies in the Eversholt Rail Group, except Eversholt Rail (365) Limited. The registered office of the Company is Newmount House, 22-24 Mount Street Lower, Dublin 2. The Company is a wholly owned subsidiary of Eversholt Investment Group (Luxembourg) Sarl.

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 Basis of consolidation

The consolidated financial statements of Eversholt Investment Limited and its subsidiaries (the Group), except for Eversholt Rail (365) Limited have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents dated 4 November 2010 entered into by the Company and certain of its subsidiaries.

The Group's interest in Eversholt Rail (365) Limited is not consolidated but stated at cost. All other subsidiaries are consolidated from the date that the Company gains control. The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of acquisition is measured as the fair value of the consideration, including contingent consideration, given at the date of completion. Acquisition-related costs are recognised as an expense in the Income Statement in the period in which they are incurred. The acquired assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition.

Other than Eversholt Rail (365) Limited, entities that are controlled by Eversholt Investment Limited are consolidated until the date that control ceases.

All inter-company transactions are eliminated on consolidation, other than transactions with Eversholt Rail (365) Limited.

2.2 Compliance with International Financial Reporting Standards

The consolidated financial statements of Eversholt Investment Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments.

The condensed interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Company since the last annual financial statements as at and for year ended 31 December 2015. This condensed interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the audited financial statements for the year ended 31 December 2015.

2.3 Accounting policies, changes in accounting estimates and errors

In accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) a change has been made retrospectively and included in the income statement for the period ended 30 June 2016.

The effect of the above on the Income Statement was that the depreciation cost (included in cost of sales) has increased by £3,873,000 to reflect depreciation adjustment relating to previous years.

The effect on the cash flow statement of the amended standard was an adjustment to loss before tax of £3,873,000 and the operating activities reconciling items. There was no effect on the net cash from operating activities. The effect on the statement of changes in equity of the amended standard was an adjustment to retained earnings, as explained above.

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2016

2 Basis of preparation (continued)

2.4 Going concern

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The financial position has been assessed in conjunction with its immediate parent, Eversholt Investment Group (Luxembourg) s.a.r.l., as its viability is dependent upon the ability of the immediate parent to provide funds for the Group when required. As a result and having made appropriate enquiries, reviewed forecasts and having the commitment of support from the parent, the Directors consider it reasonable to assume that the company has adequate resources to continue for the foreseeable future and on this basis the accounts have been prepared on a going concern basis.

3 Summary of significant accounting policies

The accounting policies applied by the Group in this condensed, consolidated interim financial report are the same as those applied by the Group in its financial statements for the year ended 31 December 2015.

4 Cost of sales

	6 months ended	
	30 June 2016	30 June 2015
	£'000	£'000
Depreciation	54,205	61,869
Maintenance cost	28,619	34,626
Write down in the value of inventory	103	103
	<u>82,927</u>	<u>96,598</u>

5 Finance income

	6 months ended	
	30 June 2016	30 June 2015
	£'000	£'000
Bank interest	122	190

6 Finance expense

	6 months ended	
	30 June 2016	30 June 2015
	£'000	£'000
Interest and other expenses		
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	25,573	23,749
Profit participating preference share dividend	315	554
Interest payable on derivatives	2,579	2,924
Interest payable on bank loans	120	3,674
Interest payable on bonds	34,941	34,684
Other finance costs	452	240
Unwinding of capitalised borrowing costs	1,872	1,942
	<u>65,852</u>	<u>67,767</u>

7 Administrative expense

Administrative expenses include the following:

	6 months ended	
	30 June 2016	30 June 2015
	£'000	£'000
Depreciation	147	316
Defined contribution pension costs	364	307
Audit fees	84	58

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2016

8 Property, plant and equipment

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
Cost			
Balance at 1 January 2015	3,292	2,259,155	2,262,447
Additions	447	129,710	130,157
Disposals	(397)	(42,163)	(42,560)
Balance at 31 December 2015	3,342	2,346,702	2,350,044
Additions	214	191,325	191,539
Disposals	-	-	-
Balance at 30 June 2016	3,556	2,538,027	2,541,583
Depreciation			
Balance at 1 January 2015	2,044	552,041	554,085
Charge for the year	540	104,778	105,318
Disposals	(234)	(17,532)	(17,766)
Balance at 31 December 2015	2,350	639,287	641,637
Charge for the period	147	54,210	54,357
Disposals	-	-	-
Balance at 30 June 2016	2,497	693,497	695,994
Net carrying value			
Carrying value at 30 June 2016	1,059	1,844,530	1,845,589
Carrying value at 31 December 2015	992	1,707,415	1,708,407

Rolling stock has been pledged to secure borrowings of the Group. The Group is not permitted to pledge these assets as security for other borrowings. Realised gain on derivatives of £1,319,405 forms part of the rolling stock additions. Refer to note 11 for further details.

9 Trade and other receivables

	30 June 2016 £'000	31 December 2015 £'000
Receivable no later than one year:		
Trade receivables	2,345	9,661
Maintenance prepayment	26,308	23,603
	28,653	33,264
Receivable later than one year:		
Maintenance prepayment	-	4,908

10 Deferred tax

	30 June 2016 £'000	31 December 2015 £'000
Balance at beginning of the period/year	25,677	63,151
Amount arising from temporary differences	(10,760)	(34,473)
Change in tax rates	1,004	(3,027)
Other comprehensive expense: actuarial movement on retirement benefit obligations	-	26
Other comprehensive expense: movement on hedge reserve	(5,361)	-
Balance at end of the period/year	10,560	25,677

Temporary differences relate principally to accelerated capital allowances and depreciation.

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2016

10 Deferred tax (continued)

Deferred tax assets and liabilities are offset where the Group or Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	30 June 2016 £'000	31 December 2015 £'000
Deferred tax asset	(41,281)	(18,875)
Deferred tax liability	<u>51,841</u>	<u>44,552</u>
	<u>10,560</u>	<u>25,677</u>

Reductions in the UK corporation tax rate to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. The deferred tax asset at 30 June 2015 has been calculated based on the rate of 20% substantively enacted at the reporting date.

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

The deferred tax asset at 30 June 2016 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.

11 Derivative financial instruments

	30 June 2016 £'000	31 December 2015 £'000
Non-current assets		
Interest rates swap contracts	4,446	860
FX forward contract – hedge accounted	<u>16,198</u>	-
	<u>20,644</u>	<u>860</u>
Current liabilities		
FX forward contract	<u>(6)</u>	-
Non-current liabilities		
FX forward contract	-	(60)
Interest rates swaps contracts – hedge accounted	<u>(50,803)</u>	-
Interest rates swaps contracts	<u>(169,339)</u>	<u>(88,806)</u>
	<u>(220,142)</u>	<u>(88,866)</u>
Total Derivative financial instruments	<u>(199,504)</u>	<u>(88,006)</u>

The fair value of derivative financial instruments is based on market rates on 30 June 2016.

11.1 Foreign exchange forward swap contracts

During the period ended 30 June 2016 the Group entered into a foreign exchange forward contracts, which enable the Group to mitigate the risk of fluctuating EUR/GBP exchange rates. On inception contracts were designated in hedge accounting relationships. The fair value of the foreign exchange forward contracts under hedge accounting relationships at the period end 30 June 2016 was £16,196,886 (31 December 2015: None).

Notes to the condensed, consolidated interim financial statements (continued)

for the 6 months ended 30 June 2016

11 Derivative financial instruments (continued)

11.1 Foreign exchange forward swap contracts (continued)

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

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

To date a realised gain of £1,319,405 has been recognised in property, plant and equipment additions. The residual gain will remain in the hedging reserve and realise in property, plant and equipment proportionately to the new build payment profile until the final payment in 2020.

Remaining foreign exchange forward contracts the Group held at the period end 30 June 2016 were not designated in hedge accounting relationships (31 December 2015: None):

11.2 Interest rate swap contracts

During the period ended 30 June 2016 the Group entered into a number of interest rate swap contracts, which enable it to mitigate the risk of fluctuating interest rates on the cash flow exposures on variable rate debt. On inception the contracts were designated in hedge accounting relationships. Fair value of the interest rate swap liabilities under hedge accounting relationship at the period end 30 June 2016 was £50,803,231 (31 December 2015: None).

Counterparty	Notional amount 30 June 2016 £'000	Maturity date	Fair value 30 June 2016 £'000	Other	Ineffective
				comprehensive income 30 June 2016 £'000	profit 30 June 2016 £'000
Relationship bank	-	01 April 2017	(6,357)	(6,315)	(42)
Relationship banks	-	01 October 2049	(34,714)	(34,277)	(438)
Relationship banks	-	30 June 2037	(9,732)	(9,672)	(61)

Remaining interest rate swap contracts the Group held at the period end 30 June 2016 were not designated in hedge accounting relationships (31 December 2015: None):

12 Cash and cash equivalents

	30 June 2016 £'000	31 December 2015 £'000
Bank accounts	<u>38,621</u>	<u>72,655</u>

Within cash and cash equivalents there is a deposit of £26.4 million (year ended 31 December 2015: £26.4 million) which provides security for the Profit Participating Shares issued by one of the group undertakings. In addition £0.5 million (year ended 31 December 2015: £0.5 million) is restricted in terms of the agreement with the Law Debenture Trust Corporation plc.

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2016

13 Deferred revenue

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

	30 June 2016 £'000	31 December 2015 £'000
Current liability		
Arising in respect of maintenance contracts	<u>3,221</u>	<u>3,176</u>
Non-current liability		
Arising in respect of maintenance contracts	<u>110,816</u>	<u>106,211</u>

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

14 Trade and other payables

	30 June 2016 £'000	31 December 2015 £'000
Trade payables	7,858	17,518
Other payables	4,424	571
Lease rentals received in advance	-	8,795
Maintenance, acquisition and administrative accruals	27,299	15,776
Interest accrual	472	834
	<u>40,053</u>	<u>43,494</u>

15 Borrowings

	30 June 2016 £'000	31 December 2015 £'000
No later than one year		
Bank loans	100,000	20,000
Interest accrued	14,169	14,226
Transaction costs	(1,894)	(1,622)
	<u>112,275</u>	<u>32,604</u>
Later than one year		
Bonds	1,340,000	1,340,000
Other loan	5,653	5,604
Transaction costs	(8,615)	(9,701)
Preference shares	25,000	25,000
Loan from Eversholt Investment Group (Luxembourg) Sarl	345,777	364,704
	<u>1,707,815</u>	<u>1,725,607</u>
	<u>1,820,090</u>	<u>1,758,211</u>

The Group has granted security over all of its assets to obtain external financing by way of bonds and loans. Fees incurred on raising finance have been capitalised. These fees will be amortised over the term of the borrowings.

The Profit Participating Shares ("PPS") carry a right to quarterly dividends. The PPS dividend element has two parts. The first part confers a right to a LIBOR based return. The second part confers a right to 0.5% of post-tax profits arising in the issuing company during the reference period. The PPS are classified as a non-current liability as the holders of these shares have a fixed entitlement to a dividend.

The bank loans are from a consortium of banks. The loans are fully repayable by November 2020. Interest on these loans is currently charged at Libor plus a margin (year ended 31 December 2015: Libor plus a margin).

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2016

15 Borrowings (continued)

Bond principal amount	Due date	Annual Interest rate Semi-annual coupon
£300m	2020	5.8%
£400m	2025	6.4%
£400m	2021-2035	6.7%
£100m	2028-2036	LIBOR+margin
£90m	2030	Fixed rate
£50m	2028-2036	Fixed rate

None of the bonds are puttable.

The loans from Eversholt Investment Group (Luxembourg) Sarl are unsecured and have no fixed repayment terms and are therefore technically repayable on demand although the amount that the Group can pay in each accounting period is limited by the terms of its external financing agreements.

16 Capital commitments

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

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

17 Retirement benefit obligations

17.1 Reconciliation of Net Defined Benefit liability

	30 June 2016 £'000	31 December 2015 £'000
Opening Net Defined Benefit Liability	2,763	2,686
Employer's share of pension expense	104	534
Employer contributions	(104)	(312)
Total loss recognised in statement of comprehensive income	-	(145)
Closing Net Defined Benefit Liability	<u>2,763</u>	<u>2,763</u>

17.2 Other comprehensive income

	30 June 2016 £'000	31 December 2015 £'000
Loss due to liability experience	-	41
Loss due to liability assumption changes	-	194
Return on plan assets greater than discount rate	-	(380)
Total gain recognised in statement of comprehensive income	<u>-</u>	<u>(145)</u>

18 Fair value of financial assets and liabilities

Except where disclosed elsewhere, there are no material differences between the carrying value and the fair value of financial assets and liabilities as at 30 June 2016.

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2016

19 Related party transactions

19.1 Identity of related parties

The ultimate parent undertaking (which is the ultimate controlling party) is CK Hutchison Holdings Limited. It was previously Eversholt Investment Group (Luxembourg) s.a.r.l.

19.2 Transactions with related parties

Loans with Eversholt Investment Group (Luxembourg) Sarl, refer to note 15. Interest on these loans is disclosed in note 6.

20 Contingent liabilities

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

21 Subsequent events

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