

**Eversholt Investment Limited
(Security Group)**

**Unaudited, condensed, consolidated
interim financial statements
for the 6 months ended 30 June 2015**

Registered No: IR490363

Condensed, consolidated interim financial statements
for the 6 months ended 30 June 2015

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Condensed, consolidated income statement
for the 6 months ended 30 June 2015

	Notes	6 months ended	
		30 June 2015	30 June 2014
		£'000	£'000
Revenue			
Finance lease income		397	466
Operating lease income		140,607	133,293
Maintenance income		42,443	32,453
Other income		1,115	1,630
Total income		184,562	167,842
Cost of sales	4	(96,598)	(90,853)
Gross profit		87,964	76,989
Finance income	5	190	232
Finance expense	6	(67,767)	(72,735)
Net fair value gain/(loss) on derivatives		10,156	(10,889)
Administrative expense	7	(12,061)	(8,423)
Profit on disposal of property, plant and equipment		30,807	-
Profit/(loss) before tax		49,289	(14,826)
Taxation	10	(18,894)	(3,133)
Profit/(loss) for the period		30,395	(17,959)

There were no discontinued or discontinuing operations during the period.

Condensed, consolidated statement of comprehensive income
for the 6 months ended 30 June 2015

	Notes	6 months ended	
		30 June 2015	30 June 2014
		£'000	£'000
Profit/(loss) for the period		30,395	(17,959)
Other comprehensive income			
Actuarial losses on defined benefit scheme		(735)	-
Tax credit in respect of actuarial losses on defined benefit scheme		149	-
Total comprehensive income/(expense) for the period		29,809	(17,959)

The notes on pages 6 to 12 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 August 2015. 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 2015

		30 June 2015 £'000	31 December 2014 £'000
Assets	Notes		
Non-current assets			
Property, plant and equipment	8	1,634,284	1,708,362
Finance lease receivables		8,790	9,238
Trade and other receivables	9	19,924	4,793
Deferred tax	10	20,852	22,526
Investment in subsidiary		2,835	2,835
		<u>1,686,685</u>	<u>1,747,754</u>
Current assets			
Inventory		1,458	1,561
Finance lease receivables		867	823
Trade and other receivables	9	24,640	19,869
Cash and cash equivalents	12	75,907	37,487
		<u>102,872</u>	<u>59,740</u>
Total assets		<u>1,789,557</u>	<u>1,807,494</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	14	29,236	30,967
Current tax		12,076	7,795
Borrowings	15	11,204	46,413
Amounts owed to Eversholt Rail (365) Limited		9,975	19,046
Deferred revenue	13	3,547	11,116
Provisions		1,338	1,195
		<u>67,376</u>	<u>116,532</u>
Non-current liabilities			
Borrowings	15	1,712,338	1,711,399
Deferred tax	10	91,025	85,677
Deferred revenue	13	114,676	89,457
Derivative financial instruments	11	97,136	107,292
Retirement benefit obligations	17	3,497	2,686
		<u>2,018,672</u>	<u>1,1996,511</u>
Total liabilities		<u>2,086,048</u>	<u>2,113,043</u>
Equity			
Share capital		12	12
Share premium account		13,660	13,660
Accumulated deficit		(310,163)	(319,221)
Total equity		<u>(296,491)</u>	<u>(305,549)</u>
Total equity and liabilities		<u>1,789,557</u>	<u>1,807,494</u>

The notes on pages 6 to 12 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 August 2015. They were signed on its behalf by:


C Cullen
Director


M Walsh
Director

Company registration number: IR490363

Condensed, consolidated statement of cash flows
for the 6 months ended 30 June 2015

	Note	6 months ended	
		30 June 2015 £'000	30 June 2014 £'000
Cash flows from operating activities			
Profit/(Loss) before tax		49,289	(14,826)
Adjustments for:			
- Depreciation		62,185	61,868
- Write down in the value of inventory		103	115
- Fair value adjustment on derivative financial instruments		(10,156)	10,889
- (Profit)/loss on disposal of property, plant and equipment		(30,807)	-
- Unwinding of capitalised finance charges		1,942	3,535
- Interest income		(190)	(232)
- Interest on borrowings		65,825	69,207
- Non-cash element of pension charge		76	-
Operating cash flow before changes in working capital		138,267	130,556
Decrease in finance lease receivables		404	388
(Increase)/decrease in trade and other receivables		(19,360)	2,293
Increase/(decrease) in deferred revenue		17,926	(10,558)
Increase in provisions		143	-
(Decrease)/increase in trade and other payables		(1,566)	1,059
Cash generated by operating activities		135,814	123,738
Tax paid		(7,442)	(4,298)
Interest received		161	1,065
Realised loss on derivative financial instruments		-	-
Net cash generated by operating activities		128,533	120,505
Investing activities			
Acquisition of property, plant and equipment		(12,901)	(6,700)
Proceeds from disposal of property, plant and equipment		54,041	-
Net cash generated by/(utilised in) investing activities		41,140	(6,700)
Financing activities			
Loans raised		-	19,000
Interest on bank loans		(3,716)	(1,264)
Interest on bonds		(34,878)	(37,583)
Interest on Eversholt Investment Group (Luxembourg) Sarl loan		(23,749)	(14,171)
Profit participating preference dividends		(661)	(527)
Interest on derivative financial instruments		(2,924)	(3,152)
Finance expenses		(504)	(2,684)
Other interest		-	(23)
(Decrease)/increase in loan from Eversholt Rail (365) Limited		(9,070)	3,876
Bank loans repaid		(35,000)	-
Shareholder loan repaid		-	(85,829)
Dividend paid		(20,751)	-
Net cash utilised in financing activities		(131,253)	(122,357)
Net increase/(decrease) in cash and cash equivalents		38,420	(8,552)
Cash and cash equivalents at beginning of the period		37,487	88,218
Cash and cash equivalents at end of the period	12	75,907	79,666

Condensed, consolidated statement of changes in equity
for the 6 months ended 30 June 2015

	Called up share capital £'000	Share premium £'000	Accumulated deficit £'000	Total shareholders' equity £'000
Balance at 1 January 2014	12	13,660	(215,549)	(201,877)
Loss for the year	-	-	(51,891)	(51,891)
Dividend paid	-	-	(50,000)	(50,000)
Actuarial losses on defined benefit scheme after tax	-	-	(1,781)	(1,781)
Balance at 31 December 2014	12	13,660	(319,221)	(305,549)

	Called up share capital £'000	Share premium £'000	Accumulated deficit £'000	Total shareholders' equity £'000
Balance at 1 January 2015	12	13,660	(319,221)	(305,549)
Profit for the year	-	-	30,395	30,395
Dividend paid	-	-	(20,751)	(20,751)
Actuarial losses on defined benefit scheme after tax	-	-	(586)	(586)
Balance at 30 June 2015	12	13,660	(310,163)	(296,491)

Notes to the condensed, consolidated interim financial statements for the 6 months ended 30 June 2015

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. In 2015, the financial statements have been converted from £ to £'000. All amounts have been rounded to the nearest thousand, unless otherwise indicated. In the opinion of the Directors, the conversion was required to become clearer to the reader of these financial statements.

2.1 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 2014. This condensed interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the financial statements for the year ended 31 December 2014.

2.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

3 Summary of significant accounting policies

The 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 2014.

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2015

4 Cost of sales

	6 months ended	
	30 June 2015	30 June 2014
	£'000	£'000
Depreciation	61,869	61,595
Maintenance cost	34,626	29,143
Write down in the value of inventory	103	115
	<u>96,598</u>	<u>90,853</u>

5 Finance income

	6 months ended	
	30 June 2015	30 June 2014
	£'000	£'000
Bank interest	<u>190</u>	<u>232</u>

6 Finance expense

	6 months ended	
	30 June 2015	30 June 2014
	£'000	£'000
Interest and other expenses		
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	23,749	26,375
Profit participating preference share dividend	554	410
Interest payable on derivatives	2,924	3,063
Interest payable on bank loans	3,674	1,244
Interest payable on bonds	34,684	37,385
Other finance costs	240	723
Unwinding of capitalised borrowing costs	1,942	3,535
	<u>67,767</u>	<u>72,735</u>

7 Administrative expense

Administrative expenses include the following:

	6 months ended	
	30 June 2015	30 June 2014
	£'000	£'000
Depreciation	316	273
Defined contribution pension costs	307	256
Audit fees	58	53

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2015

8 Property, plant and equipment

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
Cost			
Balance at 1 January 2014	2,724	2,243,606	2,246,330
Additions	568	15,549	16,117
Disposals	-	-	-
Balance at 31 December 2014	<u>3,292</u>	<u>2,259,155</u>	<u>2,262,447</u>
Additions	87	12,814	12,901
Disposals	(397)	(42,163)	(42,560)
Balance at 30 June 2015	<u>2,982</u>	<u>2,229,806</u>	<u>2,232,788</u>
Depreciation			
Balance at 1 January 2014	1,471	426,492	427,963
Charge for the year	573	125,549	126,122
Disposals	-	-	-
Balance at 31 December 2014	<u>2,044</u>	<u>552,041</u>	<u>554,085</u>
Charge for the period	316	61,869	62,185
Disposals	(234)	(17,532)	(17,766)
Balance at 30 June 2014	<u>2,126</u>	<u>596,378</u>	<u>598,504</u>
Net carrying value			
Carrying value at 30 June 2015	<u>856</u>	<u>1,633,428</u>	<u>1,634,284</u>
Carrying value at 31 December 2014	<u>1,248</u>	<u>1,707,114</u>	<u>1,708,362</u>

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.

9 Trade and other receivables

	30 June 2015 £'000	31 December 2014 £'000
Receivables no later than one year:		
Trade receivables	2,013	4,682
Other receivables	720	691
Maintenance prepayment	21,907	14,496
	<u>24,640</u>	<u>19,869</u>
Receivables later than one year:		
Maintenance prepayment	19,924	4,793
	<u>19,924</u>	<u>4,793</u>

10 Deferred tax

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 2015 £'000	31 December 2014 £'000
Deferred tax asset	(20,852)	(22,526)
Deferred tax liability	91,025	85,677
	<u>70,173</u>	<u>63,151</u>

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 2015

10 Deferred tax (continued)

Reductions in the UK corporation tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset/liability at 30 June 2015 for the UK companies 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 announced in the budget of 8 July 2015 and are expected to be substantively enacted in Autumn 2015. These announcements will be incorporated in the results when Royal Assent is given and therefore will reduce the Company's future current tax charge accordingly.

The deferred tax asset/liability at 30 June 2015 for the Irish companies has been calculated at 12.5% being the rate in force at the reporting date.

Legislation was introduced in the Finance Act 2015 to establish a new tax - the Diverted Profits Tax. The new tax regime levies a tax at 25 per cent on diverted profits arising from UK activity generated after 1 April 2015. The Company's results include an estimate of the impact of this new legislation.

11 Derivative financial instruments

	30 June 2015 £'000	31 December 2014 £'000
Non-current		
FX forward contract - liabilities	131	50
Interest rates swaps - liabilities	97,005	107,242
	<u>97,136</u>	<u>107,292</u>

The Group has a number of interest rate swap contracts, which enable it to mitigate the risk of fluctuating interest rates on the cash flow exposures on the issued variable rate debt held.

During the period ended 30 June 2015, none of the swaps were designated in hedge accounting relationships (31 December 2014: None).

The fair value of derivative financial instruments is based on market rates on 30 June 2015.

12 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	30 June 2015 £'000	31 December 2014 £'000
Bank accounts	<u>75,907</u>	<u>37,487</u>

Within cash and cash equivalents there is a deposit of £26.5 million (year ended 31 December 2014: £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 2014: £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 2015

13 Deferred revenue

	30 June 2015 £'000	31 December 2014 £'000
Current liability	<u>3,547</u>	<u>11,116</u>
Non-current liability	<u>114,676</u>	<u>89,457</u>

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

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

14 Trade and other payables

	30 June 2015 £'000	31 December 2014 £'000
Trade payables	14,034	7,633
Other payables	1,596	1,434
Lease rentals received in advance	1,711	9,191
Accruals	11,167	11,862
Interest accrual	728	847
	<u>29,236</u>	<u>30,967</u>

15 Borrowings

	30 June 2015 £'000	31 December 2014 £'000
No later than one year		
Interest accrued	12,964	13,175
Capitalised fees	(1,760)	(1,762)
Bank loans	-	35,000
	<u>11,204</u>	<u>46,413</u>
Later than one year		
Bank loans	100,000	100,000
Bonds	1,250,000	1,250,000
Other loan	5,555	5,510
Profit participating preference shares	25,000	25,000
Capitalised fees	(8,779)	(9,673)
Eversholt Investment Group (Luxembourg) Sarl	340,562	340,562
	<u>1,712,338</u>	<u>1,711,399</u>
	<u>1,723,542</u>	<u>1,757,812</u>

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 2018. Interest on these loans is currently charged at GBP Libor plus a margin (year ended 31 December 2014: GBP Libor plus a margin).

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2015

15 Borrowings (continued)

Publicly traded 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
£50m	2028-2036	Fixed rate

None of the bonds contain a put option.

Bank loans and bond agreements impose certain covenants on the performance and management of the Group. Failure to comply with these covenants may result in the loans and bonds being repayable on demand.

The Group has granted security over all of its assets to obtain external financing by way of bonds and loans.

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. In addition, Eversholt Investment Group (Luxembourg) Sarl has confirmed that the loans it has provided to the Group are subordinated to the Group's external financing facilities.

16 Capital commitments

In respect of capital expenditure:

	30 June 2015 £'000	31 December 2014 £'000
Authorised and contracted	<u>193,136</u>	<u>182,551</u>

17 Retirement benefit obligations

	30 June 2015 £'000	31 December 2014 £'000
Opening Net Defined Benefit Liability	2,686	300
Employer's share of pension expense	221	433
Employer contributions	(145)	(315)
Total loss recognised in statement of comprehensive income	<u>735</u>	<u>2,268</u>
Closing Defined Benefit Liability	<u>3,497</u>	<u>2,686</u>
	30 June 2015 £'000	31 December 2014 £'000
Loss/(gain) due to liability experience	275	2,095
Loss due to liability assumption changes	1,177	1,265
Return on plan assets greater than discount rate	(717)	(1,092)
Total loss recognised in statement of comprehensive income	<u>735</u>	<u>2,268</u>

Notes to the condensed, consolidated interim financial statements (continued)
for the 6 months ended 30 June 2015

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 2015.

19 Related party transactions

19.1 Identity of related parties

On 17 April 2015, UK Rails Sarl acquired the Group and replaced Eversholt Investment Group (Luxembourg) Sarl as the ultimate parent undertaking (which is the ultimate controlling party). Eversholt Investment Group (Luxembourg) Sarl is now the immediate holding company of the Group.

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 2015.

21 Subsequent events

On 29 July 2015, European Rail Finance (GB) Limited signed a contract with First Great Western to procure and finance 173 new AT300 vehicles at a cost of £361 million. The fleet will comprise 22 five-car and 7 nine-car trains, and is scheduled to enter service by December 2018. The Company drew on its revolving credit facility to fund the initial payment and has entered into interest rate swaps to hedge the risk to cash flows arising from fluctuating funding rates.