

# **European Rail Finance (GB) Limited**

**Annual Financial Statements**  
for the year ended 31 December 2014

**Registered No: 2720809**

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for the year ended 31 December 2014

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## Strategic report

for the year ended 31 December 2014

### Business review

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

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

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

### Risk management

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

The principal business risk for the Company is in respect of the residual value of its operating lease assets. The Company seeks to maximise the reletting potential, and therefore the residual value, of its assets by active management of the technical and commercial utility of these assets. An assessment is carried out by management every six months of the commercial value of all operating lease assets, measured as the present value of the net anticipated cashflows arising from ownership over the life of the assets. This assessment provides a basis for measuring the success of the Company in managing its assets, as well as for determining if that value is below the current book value and therefore an impairment provision might be needed.

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

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

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

### Performance

The Company's results for the year under review are as detailed in the income statement on page 7.

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



Signed on behalf of the Board by:

**M B Kenny**  
Director

Registered Office  
210 Pentonville Road  
London  
N1 9JY

Date: 24 February 2015

## Directors' report

for the year ended 31 December 2014

### Future developments

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

### Dividends

On 31 March 2014, 26 September 2014, and 22 December 2014 the Directors declared a dividend of £7,000,000, £16,000,000 and £47,500,000 respectively (2013: £18,000,000). Dividend payments will be reflected in the financial statements in the period in which they are declared.

### Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

### Directors

The Directors who served during the year were as follows:

M G Barker	Appointed 25 March 2014
A J Course	
P Gough	
A Haines	
M B Kenny	
N King	
G C Love	Resigned 22 July 2014
K L Ludeman	Appointed 22 July 2014
R Mani	
F I Maroudas	Resigned 19 March 2014
D G Stickland	Appointed 10 November 2014
J B Watt	
P J White	
J M Wilmott	

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. The Directors have no interest in the share capital of the Company, their interest in the holding company is more fully described in note 24.

### Capital management

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

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

### Disclosure of information to the auditor

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

**Directors' report (continued)**  
for the year ended 31 December 2014

**Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.



**M B Kenny**  
Director

Registered Office  
210 Pentonville Road  
London  
N1 9JY

Date: 24 February 2015



**Statement of Directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements**

for the year ended 31 December 2014

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Company's annual financial statements were approved by the Board of Directors on 24 February 2015 and signed on their behalf by:



**M B Kenny**  
Director

Registered Office  
210 Pentonville Road  
London  
N1 9JY

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

for the year ended 31 December 2014

We have audited the financial statements of European Rail Finance (GB) Limited for the year ended 31 December 2014 set out on pages 7 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

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



**Simon Clark (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

25 February 2015

One Snowhill  
Snow Hill Queensway  
Birmingham B4 6GH

## Income statement

for the year ended 31 December 2014

	<i>Note</i>	<b>2014 £'000</b>	<b>2013 £'000</b>
<b>Revenue</b>			
Operating lease income	<b>4</b>	<b>177,269</b>	186,338
Service charge income		<b>100</b>	284
Dividend income		<b>20,000</b>	-
Total revenue		<b>197,369</b>	186,622
Cost of sales	<b>5</b>	<b>(151,224)</b>	(160,678)
<b>Gross Profit</b>		<b>46,145</b>	25,944
Finance income	<b>6</b>	-	393
Finance expense	<b>7</b>	<b>(4,437)</b>	(3,668)
Finance lease expense		-	(1)
Administrative expenses	<b>8</b>	<b>(2,674)</b>	(2,134)
Profit on disposal of property, plant and equipment		-	125
<b>Profit before tax</b>		<b>39,034</b>	20,659
Income tax expense	<b>10</b>	<b>(4,155)</b>	(683)
<b>Profit for the year</b>		<b>34,879</b>	19,976

There were no discontinued or discontinuing operations during the period.

The notes on pages 11 to 25 form an integral part of these financial statements

## Statement of comprehensive income

for the year ended 31 December 2014

There has been no comprehensive income or expense other than the profit for the year as shown above (2013: nil).



# Statement of financial position

as at 31 December 2014

	Note	2014 £'000	2013 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	213,948	222,386
Trade and other receivables	13	4,315	9,887
Investments in subsidiaries	14	34,348	34,348
		<u>252,611</u>	<u>266,621</u>
<b>Current assets</b>			
Trade and other receivables	13	4,441	1,530
<b>Total assets</b>		<u>257,052</u>	<u>268,151</u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	15	16,445	14,808
Current tax		6,275	6,689
Borrowings	16	-	20,062
Deferred revenue	17	5,451	8,195
		<u>28,171</u>	<u>49,754</u>
<b>Non-current liabilities</b>			
Borrowings	16	114,215	56,176
Provisions	18	-	55
Deferred tax	19	22,855	31,055
Deferred revenue	17	41,028	44,707
		<u>178,098</u>	<u>131,993</u>
<b>Total liabilities</b>		<u>206,269</u>	<u>181,747</u>
<b>Equity</b>			
Share capital	20	50,000	50,000
Retained earnings		783	36,404
<b>Total equity</b>		<u>50,783</u>	<u>86,404</u>
<b>Total equity and liabilities</b>		<u>257,052</u>	<u>268,151</u>

The notes on pages 11 to 25 form an integral part of these financial statements.

The financial statements were approved by the board of Directors and authorised for issue on

24 February 2015. They were signed on its behalf by:



**D G Stickland**  
Director

Company registration number 2720809

**Statement of cash flows**

for the year ended 31 December 2014

	2014 £'000	2013 £'000
<b>Cash flows from operating activities</b>		
Profit before tax	39,034	20,659
Adjustments for:		
- Dividend income	(20,000)	-
- Depreciation charge	10,438	10,180
- Profit on disposal of property, plant and equipment	-	(125)
- Finance expense	4,437	3,668
- Reversal of provision for design and endemic	(55)	-
<b>Operating cash flows before changes in working capital</b>	<b>33,854</b>	<b>34,382</b>
Decrease in finance lease receivable	-	2
Decrease/(increase) in trade and other receivables	2,661	(6,885)
(Decrease)/increase in deferred revenue	(6,423)	7,829
Increase/(decrease) in trade and other payables	1,637	(862)
<b>Cash generated by operating activities</b>	<b>31,729</b>	<b>34,466</b>
Income tax paid	(12,769)	(17,787)
<b>Net cash generated by operating activities</b>	<b>18,960</b>	<b>16,679</b>
<b>Cash flow from investing activities</b>		
Acquisition of property, plant and equipment	(2,000)	(7,961)
Dividend received	20,000	-
Proceeds from disposal of property, plant and equipment	-	125
<b>Net cash generated by/(utilised in) by investing activities</b>	<b>18,000</b>	<b>(7,836)</b>
<b>Cash flow from financing activities</b>		
Intercompany loans raised	89,186	4,041
Intercompany loans repaid	(51,270)	(11,571)
Finance expenses paid	(4,437)	(3,668)
Movement on working capital loan with Eversholt Rail (UK) Limited	-	20,355
Dividends paid	(70,500)	(18,000)
Other Interest	61	-
<b>Net cash utilised in financing activities</b>	<b>(36,960)</b>	<b>(8,843)</b>
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 2014

	Share capital £'000	Retained earnings £'000	Total shareholders' equity £'000
Balance at 1 January 2013	50,000	34,428	84,428
Profit for the year	-	19,976	19,976
Dividends paid	-	(18,000)	(18,000)
<b>Balance at 31 December 2013</b>	<b>50,000</b>	<b>36,404</b>	<b>86,404</b>
Profit for the year	-	34,879	34,879
Dividends paid	-	(70,500)	(70,500)
<b>Balance at 31 December 2014</b>	<b>50,000</b>	<b>783</b>	<b>50,783</b>



## Notes to the annual financial statements

for the year ended 31 December 2014

### 1 General Information

European Rail Finance (GB) Limited (the "Company") is a company incorporated in England and Wales under the Companies Act. The registered office of the Company is 210 Pentonville Road, London, N1 9JY.

### 2 Basis of Preparation

These financial statements are presented in £'000. In 2014, 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 Compliance with International Financial Reporting Standards

The financial statements of European Rail Finance (GB) Limited have been prepared on the historical cost basis. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2014, there were no unendorsed standards effective for the period ended 31 December 2014 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements of the Company for the year ended 31 December 2014 are prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

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

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

During the year, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements. At 31 December 2014, 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 2014. The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- IFRS 14 Regulatory Deferral Accounts (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 Joint Arrangements (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (mandatory for periods beginning on or after 1 January 2016).
- Amendments to IAS 27 Consolidated and Separate Financial Statements (2008) (mandatory for periods beginning on or after 1 January 2016).
- IFRS 15 Revenue from Contracts with Customers (mandatory for periods beginning on or after 1 January 2017).
- IFRS 9 Financial Instruments (mandatory for periods beginning on or after 1 January 2018). The impact resulting from the implication of this standard is currently being assessed by the Directors.



## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 2 Basis of Preparation (continued)

#### 2.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company 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 principal accounting policies adopted are set out below and have been applied consistently to all periods presented in these financial statements.

#### 3.1 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.

#### 3.2 Borrowing costs

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

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

#### 3.3 Income tax

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

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the relevant entity intends to settle on a net basis and the legal right to offset exists.

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

Deferred tax is calculated using the tax rates expected to apply in the periods 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 period.

## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 3 Summary of significant accounting policies (continued)

#### 3.4 Property, plant and equipment

In the normal course of business rolling stock and other railway assets are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. The useful economic life depends on the class of vehicle and type of asset and ranges from 20 to 35 years. Useful lives and residual values are reviewed annually and if there is indication of impairment a loss will be recognised to reduce the carrying value of the asset to its recoverable amount.

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

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised immediately in profit or loss.

#### 3.5 Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. The Company's investments in subsidiaries are stated at cost less any impairment losses. Any impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the investment in subsidiary's recoverable amount since the last impairment loss was recognised.



## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 3 Summary of significant accounting policies (continued)

#### 3.6 Financial instruments

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

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

##### 3.6.1 Loans and receivables

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

##### 3.6.2 Cash and cash equivalents

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

##### 3.6.3 Financial liabilities

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

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

##### 3.6.4 Impairment of financial assets

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

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the Statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

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

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

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

## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 3 Summary of significant accounting policies (continued)

#### 3.6 Financial instruments (continued)

##### 3.6.5 Offsetting financial assets and financial liabilities

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

#### 3.7 Statement of cash flows

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

#### 3.8 Share capital

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

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

#### 3.9 Determination of fair value

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

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

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

#### 3.10 Use of assumptions and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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

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



## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 3 Summary of significant accounting policies (continued)

#### 3.11 Maintenance income and costs

Following the industry standard and as acknowledged by legislation, heavy maintenance services are provided to successive lessees based on a whole-of-life model. Amounts received under these arrangements that relate to maintenance of future periods are included in deferred revenue. When maintenance services are performed, the cost of which will be recovered under these arrangements only in future periods, the future recoverable amount is included in prepayments. Revenue from maintenance services rendered is recognised when the services are provided. In all cases maintenance service costs are expensed as incurred.

#### 3.12 Leases

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

##### The Company as lessor

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.

#### 3.13 Provisions

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

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

### 4 Operating lease income

	2014 £'000	2013 £'000
Rentals receivable from third parties	177,269	186,338

### 5 Cost of sales

	2014 £'000	2013 £'000
Operating lease rental to European Rail Finance Limited	(99,080)	(104,949)
Depreciation	(10,438)	(10,180)
Maintenance cost	(41,761)	(45,549)
Provision for design and endemic faults	55	-
	<u>(151,224)</u>	<u>(160,678)</u>

### 6 Finance income

	2014 £'000	2013 £'000
Interest receivable from Eversholt Rail (UK) Ltd	-	393

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2014

**7 Finance expense**

	2014 £'000	2013 £'000
Interest payable to Eversholt Rail (UK) Ltd	(4,305)	(218)
Interest payable to Eversholt Funding plc	-	(3,114)
Finance charges payable to Eversholt Funding plc	(110)	(336)
Other interest	(22)	-
	<u>(4,437)</u>	<u>(3,668)</u>

**8 Administrative expenses**

Administrative expenses include the following:

	2014 £'000	2013 £'000
Management fees	(2,095)	(1,829)
Fees payable to the company's auditor for the audit of the company's annual accounts	(16)	(16)
Fees payable to the company's auditor and its associates for other services		
- Taxation services	-	(5)
The Company has no employees and hence no staff costs (2013: nil).		

**9 Directors' emoluments**

Four of the Directors have been remunerated by Eversholt Rail (UK) Limited. No specific charge has been made to the Company in this regard.

Two of the Directors have been remunerated by European Rail Finance (GB) Limited at a cost of £356,436 (2013: £140,181).

**10 Income tax expense**

	2014 £'000	2013 £'000
<b>Current tax</b>		
Tax on current year profit	(12,355)	(13,357)
Adjustments in respect of prior years	-	(191)
<b>Total current tax</b>	<u>(12,355)</u>	<u>(13,548)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	8,200	12,612
Adjustment in respect of prior years	-	253
<b>Total deferred tax</b>	<u>8,200</u>	<u>12,865</u>
<b>Income tax expense</b>	<u>(4,155)</u>	<u>(683)</u>

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

	2014 £'000	2013 £'000
Taxation at corporation tax rate of 21.5% (2013: 23.25%)	(8,392)	(4,803)
Change in tax rate	(62)	4,057
Adjustment in respect of prior period liabilities	-	63
Non taxable income	4,299	-
<b>Income tax expense</b>	<u>(4,155)</u>	<u>(683)</u>

**Notes to the annual financial statements (continued)**  
for the year ended 31 December 2014

**11 Dividends**

During the year ended 31 December 2014 the Company received dividend income of £20,000,000 from Eversholt Rail (UK) Limited (2013:£nil).

For the year ended 31 December 2014 total dividends of £70,500,000 have been paid to European Rail Finance Holdings Limited (2013: £18,000,000).

**12 Property, plant and equipment**

	<b>Rolling stock and other railway assets £'000</b>
<b>Cost</b>	
Balance at 1 January 2013	280,833
Additions	7,961
<b>Balance at 31 December 2013</b>	<b>288,794</b>
Additions	2,000
<b>Balance at 31 December 2014</b>	<b>290,794</b>
<b>Depreciation</b>	
Balance at 1 January 2013	56,228
Charge for the year	10,180
<b>Balance at 31 December 2013</b>	<b>66,408</b>
Charge for the year	10,438
<b>Balance at 31 December 2014</b>	<b>76,846</b>
<b>Net carrying value</b>	
<b>Carrying value at 31 December 2014</b>	<b>213,948</b>
Carrying value at 31 December 2013	222,386

During the year assets were disposed of for £nil (2013: £125,000). These assets had a cost and carrying value of nil (2013: nil).

The cost of tangible fixed assets at 31 December 2014 includes capitalised interest of £509,507 (2013: £446,967). The capitalisation rate used is the rate of interest attaching to the Company's borrowings attributable to the acquisition of rolling stock.

Rolling stock has been pledged to secure borrowings of the Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted in its ability to sell them.

**13 Trade and other receivables**

	<b>2014 £'000</b>	<b>2013 £'000</b>
Receivable no later than one year: Trade receivables	<u>4,441</u>	<u>1,530</u>
Receivable later than one year: Maintenance prepayment	<u>4,315</u>	<u>9,887</u>



**Notes to the annual financial statements (continued)**

for the year ended 31 December 2014

**14 Investments in subsidiaries**

	2014 £'000	2013 £'000
<b>At Cost</b>		
At 1 January and 31 December	<u>34,348</u>	<u>34,348</u>

The principal subsidiary undertakings of the Company at the end of the reporting period were:

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2014	Ownership Percentage 2013
Eversholt Rail Holdings (UK) Limited	Ordinary Shares	England	Investment holding	100	100
Eversholt Rail (UK) Limited*	Ordinary Shares	England	Maintenance support	100	100
Eversholt Depot Finance (UK) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (380) Limited*	Ordinary Shares	England	Leasing	100	100

\*Indirect subsidiaries

**15 Trade and other payables**

	2014 £'000	2013 £'000
Rentals received in advance	4,568	5,841
Trade payables	7,116	4,786
Other payables	3,606	2,723
Accruals	1,155	1,458
	<u>16,445</u>	<u>14,808</u>

**16 Borrowings**

	Current £'000	Non-current £'000	Total £'000
<b>31 December 2014</b>			
Eversholt Rail (UK) Limited	-	108,706	108,706
Bank loan	-	5,509	5,509
	<u>-</u>	<u>114,215</u>	<u>114,215</u>
<b>31 December 2013</b>			
Eversholt Funding plc	541	50,729	51,270
Eversholt Rail (UK) Limited	19,521	-	19,521
Bank loan	-	5,447	5,447
	<u>20,062</u>	<u>56,176</u>	<u>76,238</u>

In 2014 the terms of intragroup funding arrangements were revised to more closely align with the terms of the Group's external financing. The intragroup loan with Eversholt Rail (UK) Limited is classified as non-current as it is repayable on 4 November 2018 (2013: the loans were unsecured and repayable in line with Eversholt Funding plc's own external debt). 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 (2013: GBP LIBOR plus margin).

Intercompany loan with Eversholt Funding plc matched repayment terms of Eversholt Funding plc's own external debt, but was repaid during the year. Interest on that loan was charged at margin plus GBP LIBOR.

Bank loan from HSBC Bank plc is secured against assets of Fleet 365. It is classified as non-current as it is repayable in 2021 (2013: secured and non-current). Interest on the loan is payable six-monthly at a floating rate of GBP LIBOR (2013: GBP LIBOR).



## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 16 Borrowings (continued)

#### Maturity of borrowings

The maturity profile of the carrying amount of Company's non-current borrowings at 31 December 2014 was as follows:

	2014 £'000	2013 £'000
In more than one year but not more than two years	-	-
In more than two years but not more than five years	108,706	3,384
In more than five years	5,509	52,792
	<u>114,215</u>	<u>56,176</u>

### 17 Deferred Revenue

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

	2014 £'000	2013 £'000
Current	<u>5,451</u>	<u>8,195</u>
Non-current	<u>41,028</u>	<u>44,707</u>

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

### 18 Provisions

	2014 £'000	2013 £'000
Payable later than one year: Engineering costs	<u>-</u>	<u>55</u>

Provision for engineering costs relates to the cost of rectifying endemic faults to rolling stock. The projects to rectify these faults are ongoing and are now expected to be completed in 2015/16.

	2014 £'000	2013 £'000
Balance at beginning of the year	55	55
Provision reversed	(55)	-
Balance at the end of the year	<u>-</u>	<u>55</u>

## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 19 Deferred tax

	2014 £'000	2013 £'000
Leasing transactions temporary differences:		
Balance at beginning of the year	31,055	43,920
Income statement credit	(8,200)	(12,865)
Balance at end of the year	<u>22,855</u>	<u>31,055</u>

The corporation tax rate of 23% effective from 1 April 2013 reduced further by 2% to 21% for the tax year beginning 1 April 2014. A further 1% reduction to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. This reduction in the corporation tax rate from 23% to 21% results in weighted average rate of 21.5% (2013: 23.25%).

As a result of this reduction the company's future current tax charge will reduce accordingly. The deferred tax liability at 31 December 2014 has been calculated based on rates of 20% substantively enacted at the reporting date. The effect of the change in the rate to 20% was included in the financial statements in 2013. No additional change included in the year.

### 20 Share capital

	2014 £'000	2013 £'000
<b>Authorised, allotted, called up and fully paid</b>		
50,000,002 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

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

### 21 Capital commitments

	2014 £'000	2013 £'000
In respect of capital expenditure	<u>1,331</u>	<u>2,459</u>

### 22 Risk Management

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

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

#### 22.1 Residual value risk

One of the key drivers of the Company's ability to generate the desired return from its assets is the management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the current lease terms (the "residual values") differ from those projected at the inception of the leases. The Company regularly monitors residual 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.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2014

**22 Risk Management (continued)****22.2 Capital risk management**

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

The capital structure of the Company consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

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

**22.3 Credit risk management**

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

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

No lease receivables are past their due date.

**22.4 Liquidity risk management**

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

The Company's assets, net of deferred tax, are funded principally by borrowings from another Group entity.

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

	Carrying value £'000	Total undiscounted cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
<b>31 December 2014</b>						
<b>Financial assets</b>						
Loans and receivables						
- Trade and other receivables	8,756	8,756	-	4,441	4,315	-
	<u>8,756</u>	<u>8,756</u>	<u>-</u>	<u>4,441</u>	<u>4,315</u>	<u>-</u>
<b>Financial liabilities</b>						
Non-derivative instruments – amortised cost						
- Trade and other payables	(16,445)	(16,445)	-	(16,445)	-	-
- Intercompany loans	(108,706)	(108,706)	-	-	(108,706)	-
- Bank loan	(5,509)	(5,509)	-	-	-	(5,509)
	<u>(130,660)</u>	<u>(130,660)</u>	<u>-</u>	<u>(16,445)</u>	<u>(108,706)</u>	<u>(5,509)</u>
<b>Total financial instruments</b>	<u>(121,904)</u>	<u>(121,904)</u>	<u>-</u>	<u>(12,004)</u>	<u>(104,391)</u>	<u>(5,509)</u>



**Notes to the annual financial statements (continued)**

for the year ended 31 December 2014

**22 Risk Management (continued)****22.4 Liquidity risk management (continued)**

	Carrying value £'000	Total undiscounted cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
<b>31 December 2013</b>						
Loans and receivables						
- Trade and other receivables	11,417	11,417	-	11,417	-	-
	<u>11,417</u>	<u>11,417</u>	<u>-</u>	<u>11,417</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>						
Non-derivative instruments – amortised cost						
- Trade and other payables	(14,808)	(14,808)	-	(14,808)	-	-
- Intercompany loans	(70,791)	(93,548)	-	(3,643)	(16,568)	(73,337)
- Bank loan	(5,447)	(5,447)	-	-	-	(5,447)
	<u>(91,046)</u>	<u>(113,803)</u>	<u>-</u>	<u>(18,451)</u>	<u>(16,568)</u>	<u>(78,784)</u>
<b>Total financial instruments</b>	<u>(79,629)</u>	<u>(102,386)</u>	<u>-</u>	<u>(7,034)</u>	<u>(16,568)</u>	<u>(78,784)</u>

Intercompany loans which have terms based on the terms of external bonds issued by Eversholt Funding plc have been repaid during the year and have a carrying value of £nil (2013: £47,345,318) and a fair value of £nil (2013: £54,016,068) and fell into the level two of fair value measurement hierarchy.

There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2014 (2013: nil).

Undiscounted cash flows in respect of the intercompany loans with Eversholt Rail (UK) Limited include principle amount only, due to uncertainty of working capital movements and of interest estimation. Interest on working capital loans is settled as part of working capital cash movements and not accrued.

**22.5 Market risk management****22.5.1 Foreign currency risk**

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

**22.5.2 Interest rate risk**

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

	2014 £'000	2013 £'000
<b>Fixed rate instruments</b>		
Financial liabilities	<u>-</u>	<u>(56,717)</u>
<b>Variable rate instruments</b>		
Financial liabilities	<u>(114,693)</u>	<u>(19,521)</u>

**22.5.3 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 £24,011.



## Notes to the annual financial statements (continued)

for the year ended 31 December 2014

### 23 Operating lease arrangements

#### The group as lessor

At the reporting date, the Company had contracted with lessees for the following future minimum lease rentals.

	2014 £'000	2013 £'000
Within one year	150,141	135,228
2-5 years	416,443	27,733
Over 5 years	15,967	324
	<b>582,551</b>	<b>163,285</b>
Aggregate operating lease rentals receivable in the year	<b>182,907</b>	<b>140,695</b>

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

	2014 £'000	2013 £'000
No later than one year	75,022	83,995
Later than one year and no later than five years	230,226	20,392
Later than five years	10,407	351
	<b>315,655</b>	<b>104,738</b>
Aggregate operating lease rentals payable during the year	<b>99,080</b>	<b>104,949</b>

### 24 Related-party transactions

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

The ultimate parent undertaking (which is the ultimate controlling party) is Eversholt Investment Group (Luxembourg) sarl. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Eversholt Investment Limited.

The immediate holding company is European Rail Finance Holdings Limited. The result of the Company is included in the group financial statements of Eversholt Investment Limited.

Copies of the group financial statements may be obtained from the following address:

Newmount House  
22-24 Mount Street Lower  
Dublin 2  
Ireland

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2014

**24 Related-party transactions (continued)****24.2 Transactions with related parties**

Dividend income and dividends paid are more fully described in note 11. The Company has loans with related parties, more fully described in note 16. Interest on the loans is more fully described in notes 6 and 7.

The Company paid management fees to Eversholt Rail (UK) Limited of £2,085,131 (2013: £1,799,435). The Company paid management fees to Eversholt Investment Limited of £10,000 (2013: £30,000).

The Company leases assets from European Rail Finance Limited. The operating lease expense of £99,079,986 is included in cost of sales (2013: £104,948,550).

The Company has paid Eversholt Rail (UK) Limited £36,606,098 for the procurement of maintenance of the rolling stock (2013: £45,548,587).

The Directors held the following interests in Eversholt Investment Group (Luxembourg) sarl:-

			SF	FI
<b>Preferred Equity Certificates</b>	<b>GC Love</b>	<b>MB Kenny</b>	<b>Purves</b>	<b>Maroudas</b>
Certificates held at 31 December 2012	318,978	365,626	270,797	-
Certificates redeemed	-	-	(270,797)	-
Certificates acquired	-	-	-	-
<b>Certificates held at 31 December 2013</b>	<b>318,978</b>	<b>365,626</b>	-	-
Certificates redeemed	(318,978)	(44,058)	-	-
Certificates acquired	-	-	-	-
<b>Certificates held at 31 December 2014</b>	<b>-</b>	<b>321,568</b>	-	-
<b>Ordinary shares held</b>				
<b>Shares held at 31 December 2013</b>	<b>786</b>	<b>901</b>	-	<b>667</b>
Shares redeemed	(786)	-	-	(667)
Shares acquired	-	-	-	-
<b>Shares held at 31 December 2014</b>	<b>-</b>	<b>901</b>	-	-

**25 Contingent liabilities**

There were no contingent liabilities for the Company at 31 December 2014 (2013: nil).

**26 Subsequent events**

The Company has agreed commercial terms to sell its entire freight wagon fleet. The transaction is anticipated to complete by the end of February 2015.