Eversholt Investment Limited

Financial Statements
for the year ended 31 December 2013

Registered No: IR490363

Annual Financial Statements
for the year ended 31 December 2013

Contents

Annual Review
for the year ended 31 December 2013

The Directors of Eversholt Investment Limited (EIL) present their annual review for the year to 31 December 2013 for EIL and its subsidiaries (collectively "Eversholt Rail").

Executive summary

During 2013 Eversholt Rail continued to perform well despite the delay in the recommencement of the refranchising programme. Financial performance was in line with expectations with a turnover of £341m, maintenance spend of £52m and overheads of £18m. All of Eversholt Rail's passenger fleets were on lease throughout the year and the business invested £16m to enhance its existing rolling stock.

Key events included:

- *Brown Report gives green light to restart franchising programme*
  The tone of the year was set by the Brown report into the rail passenger franchising process which was published in January 2013 following the cancellation of the Inter-City West Coast franchise award in October 2012. The report concluded that the process was fundamentally sound and recommended that the Department for Transport ('DfT') should restart the franchising programme as soon as possible. In March, DfT published its revised Rail Franchise programme covering the period 2013-2021, which brought much needed clarity to the refranchising landscape.

- *Rolling stock strategy predicts doubling of rolling stock numbers*
  In February 2013, a cross-industry group including rolling stock owners, operators and Network Rail published the UK's first 30-year passenger rolling stock strategy. The strategy predicted that total passenger rolling stock numbers will need to double over the next 30 years to meet projected sustained growth in demand. The Group will issue an update of the report in February 2014.

- *Eversholt appointed asset manager for Cross London Trains*
  In June 2013, Eversholt Rail entered into a long–term agreement to provide project and asset management services to Cross London Trains, the consortium providing the new fleet of Siemens Desiro City Class 700 trains to be operated on the Thameslink routes.

- *£600m debt refinancing provides flexible financing platform for new business*
  In November 2013, Eversholt Rail successfully completed a new £600m senior debt financing, which provides additional funding capacity for investment in rolling stock and allowed prepayment of existing bank facilities.

- *Class 321 Demonstrator showcases innovative approach to delivering high-spec rolling stock*
  Eversholt Rail in partnership with Abellio Greater Anglia and Wabtec, also launched the Class 321 Demonstrator at Liverpool Street Station in December 2013. The train has undergone a high–specification refurbishment and technology upgrades and will be running in normal service on the Abellio Greater Anglia network for a year. Eversholt Rail and Abellio Greater Anglia will be seeking passenger views on the new features showcased. The demonstrator provides a powerful means of displaying the possibilities offered by quality refurbishment delivered at significantly lower cost than new trains.

Annual Review (continued)
for the year ended 31 December 2013

Business environment and trends

Office for Rail Regulation confirms Network Rail's electrification plans

On 12th June 2013, the Office for Rail Regulation ('ORR') published its Determination of Network Rail's outputs and funding for Control Period 5 (April 2014 – 2019). The report did not indicate any major changes to the previously announced electrification expansion plans. Eversholt operates a large fleet of new and mid-life Electric Multiple Units and expects the electrification programme to create new markets and provide additional opportunities for deployment.

In July 2013, the ORR issued a Long Term Regulatory Statement covering the opportunities and challenges facing the railway industry over the next twenty years. The report proposed the development a more commercial, self-sustaining rail industry with less need for government and regulatory involvement. The challenges facing the industry include the need to cope with increasing passenger numbers over a rail network which is already approaching capacity in some areas and the Government's desire to reduce the level of funding for rail infrastructure that is currently running at nearly £4bn pa.

Passenger Rolling Stock Strategy projects doubling of passenger fleet

In February 2013 the 'Long Term Passenger Rolling Stock Strategy for the Rail Industry' was published by a group comprising the Association of Train Operating Companies, infrastructure manager Network Rail and rolling stock leasing companies.

This strategy marks the first time that the long-term rolling stock implications of passenger growth and infrastructure upgrades such as electrification and High Speed 2 have been modelled and considered together. It projects that total passenger rolling stock numbers will need to double over the next 30 years to meet projected sustained demand growth.

The report is intended to inform the development of government strategy, rather than set out a detailed cascade plan for existing fleets.

DfT restarts passenger rail franchising programme

On the 3rd October 2012, the DfT announced the cancellation of the InterCity West Coast franchise competition after identifying serious flaws in its assessment of the bids. All other then-current franchise competitions were also paused or cancelled.

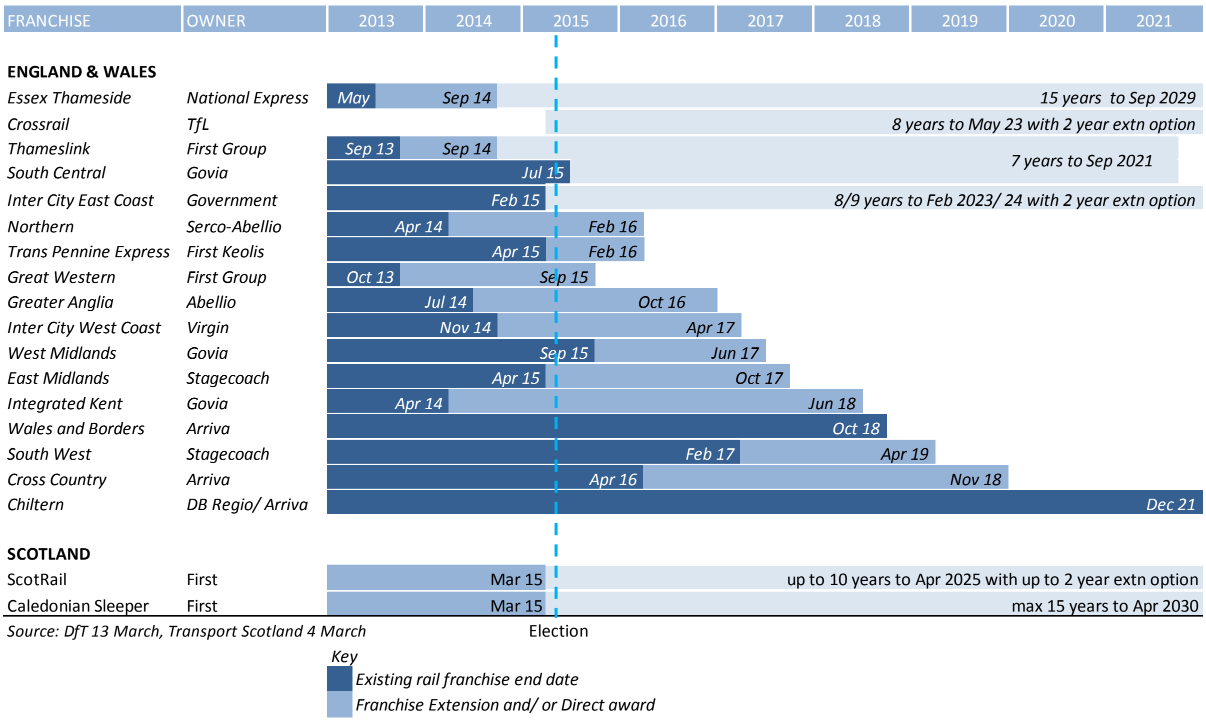
The DfT ordered an independent inquiry to consider the implications for the wider rail franchising programme. The inquiry was conducted by Richard Brown, former Chairman of Eurostar and was published in January 2013.

The Brown inquiry concluded that the franchising process was not fundamentally flawed and should restart as soon as possible. Other key points included recommendations that new franchise terms should generally be reduced from 15 years to between 7 and 10 years, with pre-contracted continuation (subject to criteria being met) of 3 and 5 years and that no more than 3 or 4 competitions should take place in any one year.

In March 2013, DfT issued a revised high-level Rail Franchise timetable for the period 2013 to 2021. The timetable is detailed overleaf:

Annual Review (continued)
for the year ended 31 December 2013

REFRANCHISING & LEASE EXTENSION TIMETABLE



Source: DfT 13 March, Transport Scotland 4 March

Eversholt Rail is currently in discussions with bidders, the DfT, Transport Scotland, and Transport for London with regard to all of these franchises.

Additional rolling stock opportunities not linked to refranchising programme

South West Trains

On 14th August 2013, DfT and South West Trains ('SWT') revealed capacity improvement plans on one of Europe's busiest rail networks. SWT anticipates a requirement of between 135 and 200 carriages which could potentially result in 40 additional five-car trains. These could be either new build or refurbished stock. The procurement process is currently underway.

Southern Railway

On 21st December 2012, the Secretary of State for Transport announced that the Government was providing support for two new rolling stock programmes by Southern Railway. The first involved exercising an existing contract option to procure 40 additional Class 377/6 vehicles to complement the 130 vehicles previously ordered in December 2011. The second programme was for a further 116 new electric carriages, with an option for another 140 carriages.

Inter-City Express Programme (phase 2)

On 18th July 2013, the DfT announced its decision to confirm an order for 270 new Class 800 carriages to be operated on the East Coast mainline from 2019. The carriages will be manufactured in the UK by Hitachi Rail Europe. Eversholt provides the IC225 rolling stock currently operated on this route and is in discussion with East Coast to secure the fleet on lease until at least 2019. Eversholt will also seek to find alternative uses for the fleet post 2019.

Annual Review (continued)
for the year ended 31 December 2013

Eversholt Investment Limited and its Owners

EIL is an Irish registered company and is wholly-owned by Eversholt Investment Group (Luxembourg) S.À.R.L. ('EIG'), which is registered in Luxembourg. EIG is in turn ultimately owned by 3i Infrastructure plc, Morgan Stanley Infrastructure Partners and Star Capital Partners and management. As at 31 December 2013, the interests in the equity of EIG were held as follows:

- 3i Infrastructure plc: 32.4%;
- Morgan Stanley Funds: 32.4%;
- Star Capital: 32.4%;
- Management 2.8%.

The directors of EIG oversee the operations of EIL and its subsidiaries. The directors of EIG that represent the shareholders are: Stefan Koch (Morgan Stanley), Gordon Hunt (Morgan Stanley), Antoine Clauzel (3i), Jonathan Doberman (3i), Laura Carballo (Star Capital), and Virginia Strelen (Vistra for Star Capital), plus one independent director: Wim J.A. Rits (Vistra). Stephen Halliwell was replaced by Jonathan Doberman on the 6 September 2013.

EIL is managed by its directors', Christopher Cullen, Michael Walsh and Brian Hayden, all of whom are independent. They are also the sole directors of each of EIL's Irish registered subsidiaries.

The UK subsidiaries of EIL are managed by an executive management team led by Mary Kenny, the Chief Executive Officer. The management team was restructured and strengthened in 2013 following the appointment of Andy Course, Chief Operating Officer (new role) and Fred Maroudas, Chief Financial Officer who replaced Simon Purves, former CFO. The team also manages the provision of a range of asset management and administrative services to EIL and its Irish subsidiaries. As at 31 December 2013, the other members of the new executive management team were:

- Clive Thomas, Head of Commercial and Business Services;
- Steve Timothy, Head of Relationship Development.

Financial Performance

Key performance indicators

- Turnover £341m.
- EBITDA £271m.
- EBT £8m.
- Company rating at year end: Fitch A- and S&P BBB stable outlook.
- Eversholt Rail is compliant with all its financial covenants.
- Refinancing extends maturity on bank facilities to 2018 and RCF increased to £500m; average maturity of debt extended to 2027

The earnings before tax of £8m is calculated after charging £53m of interest on loans provided by EIL's shareholder and after accounting for a unrealised profit of £35m on the business's swap contracts, when

Annual Review (continued)
for the year ended 31 December 2013

Financial Performance (continued)

they are "marked-to-market". Before these charges, Eversholt Rail made a profit of £26m, with a pre-tax margin on its turnover of 8%.

Trading performance in 2013

The business's financial performance was in line with expectations with EBITDA of £271m representing turnover of £341m less maintenance spend of £54m and overheads of £18m. In line with its policy of enhancing its existing portfolio of trains so as to secure life extensions and otherwise to improve the quality of the stock available to its customers, Eversholt Rail invested £16m during the year.

Debt management

Eversholt Rail's debt ratings with Fitch and S&P remain unchanged at year end at A- and BBB respectively. S&P revised its outlook on Eversholt Rail to stable from negative on improved credit metrics. Eversholt Rail's expects to maintain credit metrics commensurate with these ratings in 2014.

Eversholt Rail manages its debt levels to comply with internal targets that are more stringent than covenanted limits. The business made net repayments of bank debt of £226m, in part by using cash deposits to repay drawings on its revolving credit facilities. Following the refinancing of its existing bank facilities, the average maturity date of the group's debt was extended from 2025 to 2027.

Covenants

Eversholt Rail continues to comply with all of its financial covenants at 31 December 2013, which were as follows.

Covenant	Actual	Lock-up level
Net Debt to EBITDA	4.96x	>7.00
Interest Cover Ratio	2.48x	<1.75
NPV Test	47.2%	>70%

Financing activities

In November 2013, Eversholt Rail completed a new £600m senior debt financing, which provides additional funding capacity for investment in rolling stock and has enabled the business to prepay its acquisition bank facilities well ahead of their scheduled maturity. The financing, which was provided by a club of eleven banks, includes a £100m five year term loan facility and a £500m five year general purpose revolving credit facility, which can be extended by up to two years by agreement.

In December, the business repaid £163 million of its revolving credit facilities, resulting in full year debt repayments of £226m.

Annual Review (continued)
for the year ended 31 December 2013

Business Performance

Lease Extensions

In December 2013, Eversholt Rail successfully completed a lease extension with Chiltern Railway Company. The 8 year lease extension ends in December 2021. There have also been a number of Freight Locomotive and wagon lease extensions with Freightliner and GB Railfreight. All other negotiations were on hold pending recommencement of the DfT's passenger franchising programme.

Asset Management Services

In June 2013, Eversholt Rail entered into a long–term agreement to provide project and asset management services to Cross London Trains Limited, the consortium providing the new fleet of Siemens Desiro City Class 700 trains to be operated on the Thameslink routes. The Thameslink programme is a major rolling stock, signalling and infrastructure project which is designed to improve the London commuter network by allowing the introduction of longer trains at a frequency of up to 24 trains an hour in each direction through the capital between St Pancras and Blackfriars stations.

The services to be provided by Eversholt Rail under the 22 year agreement will include project management during the build and delivery of the rolling stock and then long–term asset management, including both technical and commercial support to Cross London Trains Limited. This is a new business area for Eversholt and is consistent with its strategic plan of providing asset management services to other rolling stock owners.

The Business of the Eversholt Rail Group

Key performance indicators

- Approximately 28% of UK passenger rolling stock market.
- Turnover of £280m from capital rents and £57m in maintenance income for the procurement of heavy maintenance on wet leases.
- LSER was Eversholt Rail's largest customer (32% of total passenger capital rental).
- 100% passenger rolling stock utilisation.

EIL owns and manages rolling stock and other railway assets located in the United Kingdom through its subsidiary companies. Eversholt Rail owns approximately 28% of the UK's passenger rolling stock. This percentage has remained stable in recent years. Eversholt Rail's asset-owning companies enter into long-term operating leases to supply a diverse range of passenger rolling stock, including regional, commuter and high speed passenger trains to Train Operating Companies ("TOCs"). The business also owns and leases freight locomotives and wagons to Freight Operating Companies ("FOCs"). Eversholt Rail is a committed and significant investor in the rail market. It purchases new rolling stock and invests in enhancements to its existing fleets. In 2013, the business spent £51m on heavy maintenance, exclusively with UK-based suppliers supporting employment in the UK regions.

Annual Review (continued)
for the year ended 31 December 2013

Eversholt Rail's strategy is based on four pillars:

1. Maximise demand and income from the existing fleets;
2. Invest to enhance returns by refurbishment and life extension of existing fleets;
3. Selective investment in new fleets;
4. Provision of asset management services to the owners of other fleets.

Customers

Eversholt Rail has long-term leases to supply rolling stock to 11 UK TOCs and to two of the three UK's major FOCs. The proportions of passenger fleet capital rents derived from each of the five largest customers is set out below.

Franchise	TOC	Percentage of capital rents*
South Eastern	London and Southeastern Railway (LSER)	32%
ScotRail	First ScotRail	15%
East Coast	East Coast Main Line	14%
Greater Anglia Franchise	Abellio Greater Anglia	13%
First Capital Connect	First Capital Connect	7%

*Refers to the percentage of 2013 passenger capital rental relating to the respective TOC.

Eversholt Rail ensures a consistent approach to its customer relationships through the use of structured account plans for each customer that are underpinned by regular working-level interaction and dialogue. Progress against these plans is reviewed on a quarterly basis at a relationship board meeting. Additionally, Eversholt Rail actively engages with TOCs and TOC-owning groups, which are not current customers, and by doing so it seeks new opportunities either within existing franchises or through upcoming franchise competitions.

Asset utilisation

Eversholt Rail has maintained a consistently high level of passenger fleet utilisation since privatisation and throughout 2013 this continued with a utilisation level of 100% of its passenger rolling stock.

Suppliers

Eversholt Rail has strong long-term relationships with all of its key suppliers. It has developed a procurement approach which takes into account the risks around a limited supplier base for the manufacture of new rolling stock and the provision of maintenance. Eversholt Rail works on a collaborative basis with a number of its key suppliers and thereby seeks to ensure that its longer-term supplier relationships successfully leverage the combined experienced and knowledge of both parties.

Annual Review (continued)
for the year ended 31 December 2013

Since privatisation, Eversholt Rail has selectively invested in new rolling stock. In recent years, it has purchased the Class 380 fleet. Eversholt Rail remains actively engaged in considering new opportunities to own and manage new build rolling stock to meet the future requirements of the industry and is therefore actively engaged with bidders in the franchising process to identify and where appropriate to develop and bid for these opportunities. Eversholt Rail also offers asset management services for new build and other projects that are being let by the Government and recently has been awarded a long term contract to provide project and asset management services to Cross London Trains, the successful consortium providing the new fleet of Siemens Desiro City Class 700 trains to be operated on the Thameslink routes.

Currently, Eversholt Rail has substantial rolling stock maintenance contracts in place with most of the key suppliers including Wabtec, Bombardier, Alstom, Hitachi, and Siemens.

In July Railcare Limited, one of Eversholt Rail's main suppliers, was placed in administration. Railcare had been contracted to undertake the enhancement and heavy maintenance of C365 fleet. The contract value had been worth circa £30m and Railcare had been awarded early contract payments to cover set up, establishment costs and early order materials.

As a consequence Eversholt Rail has written-off £1.9m to the 2013 profit and loss account and the remaining work was put out to re-tender. In November, Bombardier Transportation was awarded the contract to complete the remaining units over the next two years, with only a slight delay to the original timeframe.

Fleet overview

Key performance indicators

- Number of passenger vehicles 3,474.
- EMUs & Intercity trains comprise 90% of the passenger fleet.
- Number of freight vehicles 1,083.
- Average age of the fleet is 18.6 years.
- £52m spent on heavy maintenance in 2013.

The Eversholt Rail's passenger rolling stock portfolio consists of 19 separate fleets, comprising 3,474 passenger vehicles, of which over 3,122 have electric motive-power. These fleets range from 75mph suburban Electric Multiple Units ("EMUs") to 140mph high-speed intercity trains. The business also owns a significant proportion of the UK's most modern Diesel and Diesel-Electric Multiple Unit fleets. In addition, there is a freight fleet consisting of 83 diesel locomotives and 1,000 freight wagons consisting primarily of container flats and coal hoppers.

The average age of the fleets is 18.6 years and varies from older vehicles, introduced into service in 1971 (Mk2 coaches) and 1976 (Class 313 EMU), to the newest fleet of Class 380 EMUs introduced into passenger service by First ScotRail during 2010/11.

Annual Review (continued)
for the year ended 31 December 2013

Operating locations

The Eversholt Rail's fleets operate across the UK as shown in the table below.

Operating into London: Classes 168, 222,313, 315, 321, 365, 375/6, 395, 455, 465, 91+Mk4
Regional: Classes 158, 321, 185, 322
Scotland: Classes 170, 318, 320, 334, 380, Mk2

The freight fleets primarily operate between the ports and major distribution centres for intermodal operations (Flat Wagons) and ports and power stations for the heavy haul activities (Coal Hoppers).

Fleet condition

The business's asset engineering team regularly visits operating depots and freight yards to inspect its fleets and to carry out technical investigations.

Fleet performance

Eversholt Rail's fleet performance is regularly monitored to disclose emerging trends. In addition, Eversholt Rail works proactively with its TOC customers to identify opportunities to improve the performance of its fleets.

Fleet management

Modifications to increase asset value and the utility of rolling stock are identified, developed and delivered by the asset management team. Significant investments have been and will be made in the production of mock-ups and vehicle demonstrators to advertise the available options to Eversholt's current and prospective customers. New engineering solutions have been developed to create comfortable, modern passenger environments in preparation for new franchise opportunities.

In December 2013 Eversholt Rail, in partnership with Abellio Greater Anglia and Wabtec, launched the Class 321 Demonstrator at Liverpool Street Station. The train has undergone a high–specification refurbishment and technology upgrades and will be running in normal service on the Abellio Greater Anglia network for a year. In addition to new and refurbished seating, the entire unit has new air conditioning and heating systems; energy efficient LED lighting; modern double glazed fixed windows; better wheelchair areas and a wheelchair accessible toilet.

Technical innovation to improve performance and reduce energy consumption is also part of the asset management team's role. For example, the dual pantograph arrangement that has been fitted to one of our high-speed Class 91 locomotives operating on the East Coast Main Line is expected to provide a solution to the problem of journeys being disrupted by damaged overhead line infrastructure. The Class 321 Demonstrator will also be used to trial modern, energy efficient replacement propulsion equipment that will convert braking energy into electrical power and return it to the grid.

Maintenance

Maintenance optimisation

Strategic maintenance planning is an essential element of maintaining fleet availability, as well as achieving cost optimisation. The maintenance regimes for all Eversholt Rail's fleets are regularly reviewed to reduce costs and to avoid waste. Recycling and/or refurbishment of components are key part of such activities.

Enhancements and major projects

Eversholt Rail uses an asset planning process that considers the future need of the operating railway, including legislative changes and changes to the railway infrastructure. This helps Eversholt Rail to identify the risks and opportunities associated with the ability of our fleets to provide for such needs and therefore to keep the portfolio on lease.

Operational Environment

Highlights

- Further development of the risk management process.
- Business culture survey using a specialist consultancy from the aviation industry.
- Quality and controls successfully reassessed against the requirements of ISO9000 and RISAS.

The principal business risk for Eversholt Rail is re-letting risk. Eversholt Rail seeks to minimise this risk by the active management of the technical and commercial utility of its assets. The risk is mitigated by long-term lease contracts, underpinned by a strong and growing demand for passenger rail travel.

In addition, Eversholt Rail benefits from the existence of an obligation placed on the Secretary of State for Transport, under Section 30 of the Railways Act 1993, to ensure that passenger rail services continue to be provided when, or if, franchisees fail (the s.30 Obligation).

In some instances, the DfT has provided additional support for investment for specific rolling stock utilising the powers given to the Secretary of State, in accordance with Section 54 of the Railways Act 1993, by undertaking to provide a future substitute lessee for rolling stock for a specific period of time.

An assessment is carried out by management, currently every six months, to reconfirm the commercial value of all assets, by measuring the present value of the net anticipated cash flows arising from ownership over the remaining assumed life of the assets. This assessment is undertaken at an individual asset level and takes into account the technical and market position of each asset, assesses the need for future investment to ensure that the asset continues to offer the required utility and defines the strategy for ensuring that the asset can continue to offer safe performance and competitive value for as long as possible.

This provides a formal context in which to ensure that all issues affecting the long-term return of each asset are being constantly updated and evaluated.

Enhanced risk management process

The business's enhanced risk management process facilitates the identification, evaluation and management of risks. Risk registers form a critical part of the process. The risk register hierarchy is consistent with our organisational structure and ownership has been assigned to clarify responsibility for the continued maintenance and effective use of these risk management tools.

Safety

The operational safety of rolling stock on the railway network is the responsibility of the TOC. Eversholt Rail is responsible for the safety of its own staff and for the rolling stock services that it provides when placing rolling stock into service at the start of a new lease.

Personal health, safety and welfare is the responsibility of line managers, who risk assess the activities of the staff, so as to ensure that they are properly trained and have the correct equipment to carry out their job in a safe manner. Additional annual assessments are carried out for all staff, who visit depots or who need to work near to the operational railway.

Asset safety is the prime responsibility of the Chief Engineer, who is supported by the management team. This responsibility is discharged by employing staff with a high level of professional and technical competence supported by policies and procedures to manage the work carried out by Eversholt Rail and the qualification, selection and management of all suppliers.

During 2013, the business was subject to an annual ISO 9000 external review. A Business Culture Survey and a RISAS review are due for renewal in 2014 with the usual annual ISO 9000 review.

Safety performance and risk is reviewed monthly as part of the Operational Safety Management Meeting and safety governance continues to be provided by a quarterly review of asset safety panel, chaired independently.

Employees

Key performance indicators

- Eversholt Rail had 102 employees at 31 December 2013.
- 14 new employees joined the business.
- 13 employees left, including 2 retirements.

Current employees
Eversholt Rail seeks to attract people, who wish to work for an organisation with strong and sound values which is both meritocratic and competitive and which offers opportunities for career development.

Eversholt Rail aims to develop personal and technical skills by identifying individual needs of its employees and by providing an environment and opportunity for appropriate training. This enables individuals to reach their full potential and gives the organisation the necessary range and depth of skills and knowledge needed. Eversholt Rail continues to invest in professional qualifications. During 2013 a number of employees obtained "Chartered" status in their related disciplines.

Annual Review (continued)
for the year ended 31 December 2013

Joiners and leavers

14 employees joined the business during 2013. In addition, Eversholt Rail offered two work experience placements for individuals in full time education. In total, 13 employees left the company during 2013, 2 retirements and 11 for alternative employment.

Eversholt Rail continues to be a partner company in the Network Rail Track and Train scheme and offers six month placements to graduates of all disciplines on a rolling basis.

Social and community activities

In 2013, Eversholt Rail started a partnership with Jubilee Sailing Trust, with the aim of raising funds for the charity, increasing awareness of the Jubilee Sailing Trust and creating opportunities for employees to volunteer with the trust. £5,700 has been raised through staff activities to date.

Eversholt Rail also supports a number of railway industry organisations and charities through sponsorship of events and donations.

Corporate Social Responsibility

Eversholt Rail supports the sustainability benefits that arise from rail. It is committed to reducing its environmental impact and improving its environmental performance as an integral part of its business strategy and operational methods. It is our aim to encourage our customers and suppliers to do the same.

Sustainability is important to Eversholt Rail and the message is inherent in the various strands of our strategy.

New build

Eversholt Rail's policy is to evaluate environmental issues during the procurement process for new build trains. Eversholt Rail supports and complies with the requirements of current environmental legislation and exceeds them where possible. Eversholt Rail ensures that the specification and design of its rolling stock have high environmental standards built-in as this makes good business sense.

Green Awards

Eversholt Rail introduced an internal Green Awards scheme in 2011. The Green Awards continue to grow in popularity with a high number of entries for the 4th edition Green Awards held in December 2013. The Green Awards are for three categories, office innovation, asset efficiency and implemented asset change. The 4th edition Green Awards received 23 entries taking the total number of entries since the inception of the Green Awards to 141. This is a significant number for a company the size of Eversholt Rail. The quality and quantity of the entries support that fact that employees are engaged in the Green Awards scheme and are committed to Eversholt Rail's sustainability agenda.

Directors' report
for the year ended 31 December 2013

Principal activities

The principal activity of the Group is to own and lease rolling stock and other railway assets in the United Kingdom ("UK"). The Group owns approximately 28% by number of the UK passenger rolling stock fleet as well as a small portfolio of freight assets.

The principal activity of the Company is to provide management and other administrative services to the Group.

Business review

The Company continues to hold all of the ordinary share capital of European Rail Finance Holdings Limited, the holding company of the Eversholt Rail Group.

During the year ended 31 December 2013, the Group has continued its business of owning and leasing rolling stock and other railway assets.

Risk management

The Company has established the financial risk management objectives and policies for the Group. These objectives, together with an analysis of the exposure to such risks, are set out in note 31 of the financial statements.

The principal business risk for the Group is in respect of residual value of its operating lease assets. The Group 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 cash flows arising from ownership over the life of the assets. This assessment provides a basis for measuring the success of the Group 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 Group has an excellent knowledge of the current condition of its fleet.

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

Modifications to increase asset value by fleet enhancement are delivered by the asset managers. Significant investment has been made in the production of mock-ups and vehicle demonstrators in order to advertise the available options. New engineering solutions have been developed to create comfortable and modern passenger environments in preparation for new franchise opportunities; a refurbished interior can be comparable to those offered by new rolling stock.

Performance

The Group's and Company's results for the year ended 31 December 2013 are as detailed in the Income statement on page 20.

The key performance indicator used by management in assessing the performance of the Group is the monitoring of actual cash flows in comparison with planned cash flows. Monthly management accounts for both the Group and the Company are prepared and reviewed by the Directors.

Future developments

The Group ensures a consistent approach to its customer relationships through the use of structured account plans for each customer that underpin regular working-level interaction and dialogue. Progress against these plans is reviewed on a quarterly basis at a Relationship board meeting. Additionally the

Group actively engages with train operators and Owning Groups who are not current customers to seek new opportunities either within existing franchises or through upcoming franchise competitions.

Examples of recent initiatives with customers include joint work with Abellio, Greater Anglia and Wabtec to launch the Class 321 Demonstrator at Liverpool Street Station. The train has undergone a high-specification refurbishment and technology upgrades.

The Group will continue to invest in the enhancement of its fleet.

The Group will continue to offer its assets for lease by train operators, with particular focus on upcoming major franchise renewals and single tender action franchise extensions.

The Group will continue to look for the right opportunities to invest further in new fleets when it strategically fits with the existing portfolio. The Group will also look for the right opportunities to provide asset management services to other new owners.

Dividends

No dividends were paid in the year (year ended 31 December 2012: £40,005,758). Dividend payments are 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 Group and Company have 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:

B T Hayden
C Cullen
M Walsh

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

Supplier payment policy

The Company does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

Capital management

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

Directors' report (continued)
for the year ended 31 December 2013

Accounting records

The Directors believe that they have complied with the requirements of section 202 of the Companies Act, 1990 with regard to books of account by employing a service provider, which has appropriate expertise and provides adequate resources to the financial function. The books of account of the Company are maintained primarily by Eversholt Rail (UK) Limited, 210 Pentonville Road, London N1 9JY.

Auditor

In accordance with Section 160(2) of the Companies Act, 1963, the Auditors, KPMG Chartered Accountants will continue in office.

Signed on behalf of the Board by:

C Cullen
Director

M Walsh
Director

Registered office:
Block 4
Harcourt Centre
Harcourt Road
Dublin 2
Ireland

Date: 26 February 2014

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

for the year ended 31 December 2013

The Directors are responsible for preparing the Directors' Report and consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the financial statements in accordance with applicable Company Law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). The Company's financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for the 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; 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 proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible 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 also responsible for preparing a Directors' Report that complies with the requirements of the Companies' Acts 1963 to 2013.

The Consolidated and separate financial statements were approved by the Board of Directors on 26 February 2014 and signed on their behalf by:

C Cullen
Director

M Walsh
Director

Registered office:
Block 4
Harcourt Centre
Harcourt Road
Dublin 2
Ireland

Independent Auditor's Report to the Members of Eversholt Investment Limited

for the year ended 31 December 2013

We have audited the group and parent company financial statements (''financial statements'') of Eversholt Investment Limited for the year ended 31 December 2013 which comprise the Consolidated and separate income statements, Statements of comprehensive income, Statements of financial position, Statements of cash flows, Statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ('IFRS') adopted by the European Union ('EU') as issued by the International Accounting Standards Board.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. 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 17 the Directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group and company's affairs as at 31 December 2013 and of its loss/profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The financial statements are in agreement with the books of account and, in our opinion, proper books of account have been kept by the company.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Independent Auditor's Report to the Members of Eversholt Investment Limited (continued)

for the year ended 31 December 2013

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Paul Dobey

for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place, IFSC
Dublin
Ireland

26 February 2014

Consolidated and separate income statements
for the year ended 31 December 2013

	Note	Group Year ended 31 December 2013 £	Group Year ended 31 December 2012 (restated) £	Company Year ended 31 December 2013 £	Company Year ended 31 December 2012 £
Revenue					
Finance lease income		**615,701**	1,076,292	**-**	-
Operating lease income		**280,098,844**	279,843,201	**-**	-
Maintenance income		**57,466,696**	67,227,531	**-**	-
Service charge income		**-**	-	**1,122,732**	-
Other revenue		**2,501,836**	664,455	**-**	-
Total income		**340,683,077**	348,811,479	**1,122,732**	-
Cost of sales	4	**(188,842,665)**	(205,805,128)	**-**	-
Gross profit		**151,840,412**	143,006,351	**1,122,732**	-
Dividends receivable		**-**	-	**59,500,000**	165,000,000
Finance income	5	**1,673,691**	1,778,985	**667,143**	898,731
Finance expense	6	**(163,100,156)**	(161,531,784)	**(53,190,804)**	(56,545,241)
Net profit/(loss) on fair value adjustment on derivatives		**34,713,307**	(23,994,072)	**-**	-
Pension finance credit	30	**11,000**	12,000	**-**	-
		25,138,254	(40,728,520)	**8,099,071**	109,353,490
Administrative expense	7	**(18,210,370)**	(14,837,677)	**(1,167,274)**	(961,423)
Profit on disposal of property, plant and equipment		**645,000**	3,283,444	**-**	-
Profit/(loss) before tax		**7,572,884**	(52,282,753)	**6,931,797**	108,392,067
Income tax (charge)/credit	10	**(8,183,537)**	3,081,268	**(66,272)**	(174,198)
(Loss)/profit for the year		**(610,653)**	(49,201,485)	**6,865,525**	108,217,869

There were no discontinued or discontinuing operations during the year.

Statements of consolidated and separate comprehensive income
for the year ended 31 December 2013

	Note	Group Year ended 31 December 2013 £	Group Year ended 31 December 2012 (restated) £	Company Year ended 31 December 2013 £	Company Year ended 31 December 2012 £
(Loss)/profit for the year		**(610,653)**	(49,201,485)	**6,865,525**	108,217,869
Other comprehensive expense					
Actuarial (losses)/gains on defined benefit scheme	30	**(375,000)**	89,000	**-**	-
Tax credit/(expense) in respect of actuarial (losses)/gains on defined benefit scheme	16	**78,350**	(19,132)	**-**	-
Total comprehensive (expense)/income for the year		**(907,303)**	(49,131,617)	**6,865,525**	108,217,869

The prior year figures have been restated following the change in accounting policy in respect of the defined benefit pension scheme (see note 2.4 for further details). The notes on pages 24 to 55 form an integral part of these financial statements. The financial statements were approved by the board of directors and authorised for issue on 26 February 2014. They were signed on its behalf by:

C Cullen
Director
Company registration number IR490363

M Walsh
Director

Statements of consolidated and separate financial position
as at 31 December 2013

		Group		Company	
		As at 31 December 2013	As at 31 December 2012 (restated)	As at 31 December 2013	As at 31 December 2012
Assets	Notes	£	£	£	£
Non-current assets					
Property, plant and equipment	11	**1,870,415,492**	1,990,972,733	**24,605**	29,166
Finance lease receivables	13	**10,061,760**	11,197,360	**-**	-
Trade and other receivables	14	**6,670,704**	7,496,501	**-**	-
Deferred tax	16	**141,474**	177,269	**-**	-
Investment in subsidiaries	17	**-**	-	**393,238,408**	393,238,408
Derivative financial instrument	15	**2,728**	741,177	**-**	-
		1,887,292,158	2,010,585,040	**393,263,013**	393,267,574
Current assets					
Inventory	12	**1,791,567**	2,021,813	**-**	-
Finance lease receivables	13	**779,240**	735,476	**-**	-
Trade and other receivables	14	**8,879,383**	23,598,949	**112,024**	66,274
Loans receivable	18	**-**	-	**25,255,356**	-
Cash and cash equivalents	19	**88,218,325**	157,478,750	**27,181,819**	26,944,777
Deferred revenue	24	**567,008**	698,793	**-**	-
		100,235,523	184,533,781	**52,549,199**	27,011,051
Total assets		**1,987,527,681**	2,195,118,821	**445,812,212**	420,278,625
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	20	**30,283,289**	28,927,359	**170,160**	92,695
Current tax		**4,300,849**	11,480,159	**16,889**	65,816
Obligations under finance leases	21	**10,526,307**	9,100,966	**-**	-
Borrowings	22	**80,247,832**	25,185,860	**53,029,072**	34,389,548
Provisions	23	**167,124**	138,562	**-**	-
		125,525,401	74,832,906	**53,216,121**	34,548,059
Non – current liabilities					
Borrowings	22	**1,739,926,937**	1,978,302,399	**369,759,872**	369,759,872
Deferred tax	16	**78,190,258**	79,409,963	**-**	-
Obligations under finance leases	21	**84,745,005**	90,203,148	**-**	-
Deferred revenue	24	**117,368,076**	90,271,953	**-**	-
Derivative financial instruments	15	**58,531,715**	97,922,298	**-**	-
Provisions	23	**55,000**	83,562	**-**	-
		2,078,816,991	2,336,193,323	**369,759,872**	369,759,872
Total liabilities		**2,204,342,392**	2,411,026,229	**422,975,993**	404,307,931
Equity					
Share capital	25	**12,000**	12,000	**12,000**	12,000
Share premium		**13,660,000**	13,660,000	**13,660,000**	13,660,000
(Accumulated deficit)/Retained earnings		**(230,486,711)**	(229,579,408)	**9,164,219**	2,298,694
Total equity		**(216,814,711)**	(215,907,408)	**22,836,219**	15,970,694
Total equity and liabilities		**1,987,527,681**	2,195,118,821	**445,812,212**	420,278,625

The prior year figures have been restated following the change in accounting policy in respect of the defined benefit pension scheme (see note 2.4 for further details).The notes on pages 24 to 55 form an integral part of these financial statements. The financial statements were approved by the board of directors and authorised for issue on 26 February 2014. They were signed on its behalf by:

C Cullen
Director
Company registration number IR490363

M Walsh
Director

Statements of consolidated and separate cash flows
for the year ended 31 December 2013

		Group		Company	
		Year ended 31 December 2013	Year ended 31 December 2012 (restated)	Year ended 31 December 2013	Year ended 31 December 2012
	Note	£	£	£	£
Cash flow from operating activities					
Profit/(loss) before tax		**7,572,884**	(52,282,753)	**6,931,797**	108,392,067
Adjustments for non cash items	*26*	**263,312,752**	327,648,812	**53,198,208**	56,550,533
Operating cash flow before movements in working capital		**270,885,636**	275,366,059	**60,130,005**	164,942,600
Decrease in finance lease receivable		**1,091,836**	659,596	**-**	-
Decrease/(increase) in trade and other receivables		**16,185,465**	8,378,506	**(45,752)**	6,836
Increase in deferred revenue		**25,788,077**	3,631,878	**-**	-
Decrease in provisions		**-**	(117,001)	**-**	-
Increase/(decrease) in trade and other payables		**419,991**	(1,430,078)	**77,465**	833
Cash generated by/(utilised in) operating activities		**314,371,005**	286,488,960	**60,161,718**	164,950,269
Taxation paid		**(16,468,408)**	(13,568,604)	**(115,198)**	(84,553)
Interest received		**1,149,083**	1,650,620	**-**	-
Net cash generated by operating activities		**299,051,680**	274,570,976	**60,046,520**	164,865,716
Cash flow from investing activities					
Acquisition of property, plant and equipment		**(16,398,106)**	(17,763,357)	**(2,843)**	(11,509)
Proceeds from disposal of property, plant and equipment		**645,000**	5,940,000	**-**	-
Loans recovered		**-**	-	**-**	23,398,949
Cash (utilised in)/generated by investing activities		**(15,753,106)**	(11,823,357)	**(2,843)**	23,387,440
Cash flow from financing activities					
Funds raised		**279,000,000**	150,000,000	**-**	-
Finance expenses paid	*26*	**(103,679,190)**	(163,834,281)	**13**	(63,766,909)
Payment of finance lease obligations		**(4,032,802)**	(2,732,474)	**-**	-
Bank loans repaid		**(504,950,000)**	(205,000,000)	**-**	-
Realised loss on derivatives		**(3,938,827)**			
Intercompany loan repaid		**-**	-	**(44,848,468)**	(48,338,722)
Shareholder loans repaid		**(14,958,180)**	(35,750,000)	**(14,958,180)**	(35,750,000)
Shareholder dividends paid		**-**	(40,005,758)	**-**	(40,005,758)
Cash utilised in financing activities		**(352,558,999)**	(297,322,513)	**(59,806,635)**	(187,861,389)
(Decrease)/increase in cash and cash equivalents		**(69,260,425)**	(34,574,894)	**237,042**	391,767
Cash and cash equivalents at the beginning of the year		**157,478,750**	192,053,644	**26,944,777**	26,553,010
Cash and cash equivalents at end of year	*19*	**88,218,325**	157,478,750	**27,181,819**	26,944,777

Statements of changes in equity
for the year ended 31 December 2013

Group

	Called up share capital	Share premium	Accumulated deficit	Total shareholders' equity
	£	£	£	£
Balance at 1 January 2012 as previously reported	12,000	13,660,000	(140,075,283)	(126,403,283)
Impact of change in accounting policy (note 2.4)	-	-	(366,750)	(366,750)
Restated balance at 1 January 2012	**12,000**	**13,660,000**	**(140,442,033)**	**(126,770,033)**
Loss for the year (restated)	-	-	(49,201,485)	(49,201,485)
Actuarial gains on defined benefit scheme after tax (restated)	-	-	69,868	69,868
Dividends paid	-	-	(40,005,758)	(40,005,758)
Restated balance at 31 December 2012	12,000	13,660,000	(229,579,408)	(215,907,408)
Loss for the year	-	-	(610,653)	(610,653)
Actuarial losses on defined benefit scheme after tax	-	-	(296,650)	(296,650)
Balance at 31 December 2013	**12,000**	**13,660,000**	**(230,486,711)**	**(216,814,711)**

Company

	Called up share capital	Share premium	Retained earnings	Total shareholders' equity
	£	£	£	£
Balance at 1 January 2012	12,000	13,660,000	(65,913,417)	(52,241,417)
Profit for the year	-	-	108,217,869	108,217,869
Dividends paid	-	-	(40,005,758)	(40,005,758)
Balance at 31 December 2012	**12,000**	**13,660,000**	**2,298,694**	**15,970,694**
Profit for the year	-	-	6,865,525	6,865,525
Balance at 31 December 2013	**12,000**	**13,660,000**	**9,164,219**	**22,836,219**

Notes to the consolidated and separate financial statements

for the year ended 31 December 2013

1 General Information

Eversholt Investment Limited is a company incorporated in the Republic of Ireland under the Companies Act. The registered office of the Company is Block 4, Harcourt Centre, Harcourt Road, Dublin 2. The principal activities of the company and the Group are set out on page 14.

2 Basis of Preparation

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

2.1 Compliance with International Financial Reporting Standards

The consolidated and separate financial statements of Eversholt Investment Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. 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 2013, there were no unendorsed standards effective for the year ended 31 December 2013 affecting these consolidated and separate 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 Eversholt Rail Group (ERG). Accordingly, the consolidated and separate financial statements of Eversholt Investment Limited for the year ended 31 December 2013 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

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

2.2 Standards and Interpretations issued by the IASB

The following Adopted IFRSs have been issued but have not been applied in these financial statements as they are not yet mandatory. Their adoption is not expected to have a material effect on the financial statements unless stated otherwise.

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (mandatory for year commencing on or after 1 January 2014).
- IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures (mandatory for year commencing on or after 1 January 2014).
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2014).
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (mandatory for year commencing on or after 1 January 2014).
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (mandatory for year commencing on or after 1 January 2014).
- IFRS 9 Financial Instruments (Effective date to be confirmed). The impact resulting from the application of this standard is currently being assessed by the Directors.
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting' (mandatory for year commencing on or after 1 January 2014).
- IFRIC Interpretation 21 Levies (mandatory for year commencing on or after 1 January 2014).

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

2 Basis of Preparation (continued)

2.3 Basis of consolidation

The consolidated financial statements of Eversholt Investment Limited comprise the financial statements of Eversholt Investment Limited and its subsidiaries made up to 31 December 2013.

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 at 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 values at the date of acquisition.

Entities that are controlled by Eversholt Investment Limited are consolidated until the date that control ceases.

All intercompany transactions, balances, income and expenses are eliminated on consolidation.

2.4 Change in accounting policy

The Group adopted IAS 19 (Revised) Employee Benefits from 1 January 2013. As a result of IAS 19 (Revised), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans. Under previous IAS 19, interest cost on the defined benefit obligation and an expected return on plan assets were recognised in the Income Statement within finance cost and finance income respectively. Under IAS 19R, these two amounts have been replaced by a single measure called ‘net interest’ calculated on the net defined benefit liability/(asset). This change affects the difference between actual and expected returns on plan assets, which is recognised in full within OCI as part of remeasurements. The amended standard introduced changes to the accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and changes to the recognition and measurement of termination benefits. The amendments to the standard have provided clarification on a number of issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk sharing and conditional indexation features.

In accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the change has been made retrospectively and the comparative financial information in the income statement and OCI has been restated for the year ended 2012.

The effect of the above on the Income Statement was that the pension service cost (included in administrative expenses) has increased by £44,000 and the pension finance credit has reduced by £362,000. The actuarial loss of £946,000 recorded in the statement of comprehensive income has been replaced by an actuarial gain of £89,000. The retirement benefit obligation at 31 December 2012 of £6,000 has been replaced by a retirement benefit asset of £134,000. At 1 January 2012 the retirement benefit asset of £489,000 has been reduced to £nil and the associated deferred tax liability of £122,250 has been reduced to £nil.

As a result of the above, the tax credit in the income statement has increased by £96,297 and the deferred tax credit in OCI has decreased by £250,747. The effect on the cash flow statement of the amended standard was an adjustment to loss before tax of £406,000 and the operating 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.

Summary of quantitative impact

The following table summarises the impact of the above change(s) on the Group’s financial position, comprehensive income and cash flows.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

2 Basis of Preparation (continued)

2.4 Change in accounting policy (continued)

	As previously reported £	Change in accounting policy £	As restated £
Statement of financial position			
Deferred tax	209,469	(32,200)	177,269
Trade and other receivables	23,464,949	134,000	23,598,949
Others	2,171,342,603	-	2,171,342,603
Total assets	2,195,017,020	101,800	2,195,118,821
Trade and other payables	43,891,539	(6,000)	43,885,539
Others	2,367,140,690	-	2,367,140,690
Total liabilities	2,411,032,229	(6,000)	2,411,026,229
Share capital	12,000	-	12,000
Share premium	13,660,000	-	13,660,000
Accumulated deficit	(229,687,208)	107,800	(229,579,408)
Total equity	(216,015,208)	107,800	(215,907,408)
Income statement			
Gross profit	143,006,351	-	143,006,351
Pension finance credit	374,000	(362,000)	12,000
Administrative expenses	(14,793,677)	(44,000)	(14,837,677)
Others	(180,463,427)	-	(180,463,427)
Loss before tax	(51,876,753)	(406,000)	(52,282,753)
Income tax credit	2,984,971	96,297	3,081,268
Loss for the year	(48,891,782)	(309,703)	(49,201,485)
Statement of comprehensive income			
Profit for the year	(48,891,782)	(309,703)	(49,201,485)
Other comprehensive income:			
Actuarial losses/gains	(946,000)	1,035,000	89,000
Tax in respect of actuarial losses	231,615	(250,747)	(19,132)
Total comprehensive income for the year	(49,606,167)	474,550	(49,131,617)
Statement of cash flows			
Loss before tax	(51,876,753)	(406,000)	(52,282,753)
Adjustments:			
Non-cash element of pension charge	(451,000)	406,000	(45,000)
Others	327,787,058	-	327,787,058
Operating cash flows before working capital	275,459,305	-	275,459,305

Had the Group not adopted IAS19R, total defined benefit liability would have been £818,000 as of 31 December 2013 and for the year ended 31 December 2013 the employer’s share of pension expense would have been £176,000.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

2 Basis of Preparation (continued)

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

3.1 Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of the assets, but not necessarily legal title, are classified as finance leases. They are recorded at an amount equal to the net investment in the lease less any impairment provisions, within finance lease receivables. All other leases are classified as operating leases.

The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. The difference between the gross investment in the lease and the net investment in the lease is recorded as unearned finance income.

Income from finance leases is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates.

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

3.2 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 Group 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 Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

3.2.1 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 Summary of significant accounting policies (continued)

3.3 Fees and commission income

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

3.4 Income tax

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

Current tax is the tax expected to be payable on the taxable profit for the period, 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. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group has a legal right to offset.

3.5 Foreign currencies

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

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

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

3.6 Property, plant and equipment

In accordance with IFRS 3 the Group has restated its rolling stock and other railway assets to their fair value at the acquisition date.

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.

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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

Equipment, fixtures and fittings are stated at cost being the fair value at acquisition date less any impairment losses and depreciation calculated on a straight-line basis to write-off the assets over 5 years.

The depreciation charge is included in the income statement.

Assets held under finance leases are depreciated over the expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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 Group 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.

3.7 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.

3.8 Financial instruments

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

3.8.1 Financial assets

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

3 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

3.8.2 Loans and receivables

Loans and receivables include receivables originated by the Group 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.

3.8.3 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.

3.8.4 Impairment of financial instruments

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. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

Losses for impaired loans are recognised immediately in profit or loss 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.

3.8.5 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 Group becomes party to the contractual provisions of the instrument. The Group 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.

3.8.6 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 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

3.8.7 Derivatives and hedge accounting

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate fluctuations.

Derivatives are recognised initially, and are subsequently re-measured, at fair value. Derivatives are initially recognised at fair value at the date a derivative contract is entered into. The gain or loss resulting from remeasurements is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. During the year ended 31 December 2013, the Group did not hold any derivatives that were designated as hedging instruments.

3.8.8 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.

3.9 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 Group’s financing activities, through which the Group will acquire resources intended to generate future income and cash flows.

3.10 Share capital

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

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

3.11 Use of assumptions and estimates

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

The estimates and underlying assumptions are reviewed on an 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.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

3 Summary of significant accounting policies (continued)

3.11 Use of assumptions and estimates (continued)

Critical judgements in applying the Group's accounting policies.

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

Depreciation

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.

Valuation of defined benefit retirement obligation

In making their estimate of the valuation of the defined benefit retirement obligation, management have made a number of assumptions. These assumptions are more fully described in note 30.

Fair value of derivative financial instruments

In the determination of the fair value of financial instruments, management have taken into account the contractual cash flows attaching to the instrument and an independently sourced yield curve for the reporting date.

Maintenance

The maintenance accounting model uses a number of assumptions including management forecasts of future maintenance activities.

3.12 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 other creditors. 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.

3.13 Retirement benefit obligations

The Group provides defined benefit and defined contribution schemes on behalf of employees. The defined benefit scheme is funded by contributions partly from the employees and partly from the Group at rates assessed by independent actuaries. These contributions are invested separately from the Group's assets.

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the Income Statement.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

3 Summary of significant accounting policies (continued)

3.13 Retirement benefit obligations (continued)

plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The defined benefit liability recognised in the statement of financial position represents the fair value of plan assets less present value of defined benefit obligations adjusted for unrecognised past service costs. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3.14 Inventories

Inventories are stated at the lower of cost and net realisable value.

3.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group 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 flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

3.16 Preference shares

Preference shares are classified as a non-current liability as the holder of these shares has a fixed entitlement to a dividend. The dividend payable is recorded within finance expense.

4 Cost of sales

	Group		Company	
	Year ended 31 December 2013 £	Year ended 31 December 2012 £	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Depreciation	**136,468,879**	146,544,697	**-**	-
Maintenance cost	**52,143,541**	59,030,186	**-**	-
Write down in the value of inventories	**230,245**	230,245	**-**	-
	188,842,665	205,805,128	**-**	-

5 Finance income

	Group		Company	
	Year ended 31 December 2013 £	Year ended 31 December 2012 £	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Fixed rate preference dividend	**-**	-	**495,000**	495,000
Bank interest	**1,673,691**	1,778,985	**172,143**	403,731
	1,673,691	1,778,985	**667,143**	898,731

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

6 Finance expense

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£	£
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	**(53,029,060)**	(55,422,563)	**(53,029,060)**	(55,422,563)
Profit participating preference share dividend	**(837,570)**	(1,386,251)	**-**	-
Interest payable on derivatives	**(3,925,612)**	(6,370,474)	**-**	-
Interest payable on bank loan	**(6,455,586)**	(12,938,774)	**-**	-
Interest expense on obligations under finance leases	**(8,524,558)**	(9,072,697)	**-**	-
Interest payable on bonds	**(75,030,396)**	(69,719,712)	**-**	-
Other finance costs	**(1,461,477)**	(924,560)	**-**	(3,299)
Unwinding of capitalised borrowing costs	**(13,835,897)**	(5,696,753)	**-**	-
Interest payable to Eversholt Rail (UK) Limited	**-**	-	**(161,744)**	(1,119,379)
	(163,100,156)	(161,531,784)	**(53,190,804)**	(56,545,241)

7 Administrative expense

Administrative expenses include:

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£	£
Foreign exchange gains/(losses)	**619**	(1,976)	**(1,854)**	(1,613)
Depreciation	**(486,468)**	(455,443)	**(7,404)**	(5,292)
Defined contribution pension costs	**(455,761)**	(412,745)	**-**	-
Fees payable to the company's auditor for the audit of the company's annual accounts	**(115,000)**	(115,000)	**(18,893)**	(18,893)
Fees payable to the company's auditor and its associates for other services	**(179,881)**	(139,016)	**(20,806)**	(51,696)
Prepayments written off	**1,891,618**	3,058	**-**	-

During the year prepayments of £1,891,618 made to a supplier for maintenance services were written off as a result of the supplier going in to administration (year ended 31 December 2012: £3,058).

8 Staff numbers and costs

Group

The average number of persons employed by the Group (including directors of the Company) during the year was as follows:

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	Number	Number	Number	Number
Directors	**3**	3	**3**	3
Operations	**61**	52	**2**	2
Administration	**40**	46	**4**	4
	104	101	**9**	9

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

8 Staff numbers and costs (continued)

The Directors of UK subsidiaries are included in Administration.

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012 (restated)	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£	£
Wages and salaries	**(8,661,041)**	(7,746,996)	**(361,264)**	(323,677)
Social security costs	**(1,066,220)**	(919,835)	**(39,962)**	(36,172)
Contributions to defined contribution pension scheme	**(455,761)**	(412,745)	**(33,485)**	(23,665)
Defined benefit pension scheme service cost (Note 30)	**(399,000)**	(383,000)	**-**	-
	(10,582,022)	(9,462,576)	**(434,711)**	(383,514)

9 Directors' emoluments

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
For services to the Company	**(178,652)**	(169,760)	**(178,652)**	(169,760)
Reimbursement of expenses	**(3,290)**	(3,514)	**(3,290)**	(3,514)
	(181,942)	(173,274)	**(181,942)**	(173,274)

The emoluments of the highest paid director, including benefits in kind were £59,551 (31 December 2012: £56,587). None of the Directors are members of the defined benefit scheme nor do they have any share options or interest in the share capital of the Company.

10 Income tax (expense)/credit

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012 (restated)	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£	£
Current tax				
Irish Corporation tax				
On current year profit	**(57,266)**	(100,933)	**(57,266)**	(100,933)
On prior year profit	**(9,006)**	(55,319)	**(9,006)**	(49,436)
Overseas tax				
On current year profit	**(9,791,591)**	(19,171,485)	**-**	-
Group relief for nil consideration	**894,642**	-	**-**	-
On prior year profit	**(325,876)**	(673,164)	**-**	-
	(9,289,097)	(20,000,901)	**(66,272)**	(150,369)
Deferred tax				
Origination and reversal of temporary differences	**1,105,560**	23,082,169	**-**	(23,829)
Total income tax (expense)/credit	**(8,183,537)**	3,081,268	**(66,272)**	(174,198)

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

10 Income tax credit/(expense) (continued)

The Irish corporation tax rate applying to the Company and its Irish subsidiaries was 12.5% (year ended 31 December 2012 12.5%). The UK tax rate applying to the profits of subsidiaries assessable in the UK was 23.25% (year ended 31 December 2012: 24.5%).

The following table reconciles the tax credit/(expense) which would apply if all profits had been taxed at the Irish corporation tax rate:

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012 (restated)	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£	£
Taxation at corporation tax rate	**946,610**	(6,535,344)	**(866,475)**	(13,549,008)
Amounts not deductible for tax purposes	**1,839,311**	1,137,656	**-**	-
Change in tax rates	**5,500,038**	4,298,337	**-**	-
Prior year adjustment	**(87,659)**	960,204	**(9,006)**	(73,266)
Group relief for nil consideration	**-**	(1,132,119)	**-**	-
Income not taxable for tax purposes	**1,545,897**	-	**-**	-
Adjustment in respect of current tax charge	**-**	3,124,920	**-**	-
Effects of taxing overseas profits at different rates	**(22,224,652)**	55,249,620	**-**	-
Permanent tax differences	**4,296,918**	(54,022,006)	**809,209**	13,448,076
	(8,183,537)	3,081,268	**(66,272)**	(174,198)

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax, relating to components of other comprehensive income, resulted in a £78,350 increase (year ended 31 December 2012 restated: £19,132 decrease) in total comprehensive income.

11 Property, plant and equipment

Group

	Other assets	Rolling stock and other railway assets	Total
	£	£	£
Cost			
Balance at 1 January 2012	2,278,111	2,290,088,468	2,292,366,579
Additions	123,259	17,640,098	17,763,357
Disposals	-	(4,014,615)	(4,014,615)
Balance at 31 December 2012	**2,401,370**	**2,303,713,951**	**2,306,115,321**
Additions	332,669	16,065,437	16,398,106
Disposals	-	(74,148)	(74,148)
Balance at 31 December 2013	**2,734,039**	**2,319,705,240**	**2,322,439,279**

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

11 Property, plant and equipment (continued)

	Other assets	Rolling stock and other railway assets	Total
Depreciation			
Balance at 1 January 2012	529,206	168,971,301	169,500,507
Charge for the year	455,443	146,544,697	147,000,140
Disposals	-	(1,358,059)	(1,358,059)
Balance at 31 December 2012	**984,649**	**314,157,939**	**315,142,588**
Charge for the year	486,468	136,468,879	136,955,347
Disposals	-	(74,148)	(74,148)
Balance at 31 December 2013	**1,471,117**	**450,552,670**	**452,023,787**
Net carrying value			
Carrying value at 31 December 2013	**1,262,922**	**1,869,152,570**	**1,870,415,492**
Carrying value at 31 December 2012	1,416,721	1,989,556,012	1,990,972,733

All assets have been pledged to secure borrowings of the Group. The Group is not permitted to pledge these assets as security for other borrowings. The assets are secured by a fixed charge held by the financial institutions that have lent to Eversholt Funding plc.

Other assets relate to equipment, fixtures and fittings.

The depreciation charge on rolling stock and other railway assets is included within cost of sales in the income statement. The depreciation on other assets is included in administrative expenses.

Company

	Fixtures and fittings £
Cost	
Balance at 1 January 2012	25,481
Additions	11,509
Balance at 31 December 2012	**36,990**
Additions	2,843
Balance at 31 December 2013	**39,833**
Depreciation	
Balance at 1 January 2012	2,532
Charge for the year	5,292
Balance at 31 December 2012	**7,824**
Charge for the year	7,404
Balance at 31 December 2013	**15,228**
Net carrying value	
Carrying value at 31 December 2013	**24,605**
Carrying value at 31 December 2012	29,166

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

12 Inventory

	As at 31 December 2013 £	As at 31 December 2012 £
Rolling stock spares	**1,791,567**	2,021,813

Write down in the value of inventories recognised within cost of sales in the Consolidated Income statement is an expense amounting to £230,245 (31 December 2012: £230,245).

13 Finance lease receivables

	Group		Company	
	As at 31 December 2013 £	As at 31 December 2012 £	As at 31 December 2013 £	As at 31 December 2012 £
Gross investment in finance leases				
Amounts falling due:				
No later than one year	**1,694,836**	1,708,461	-	-
Later than one year and no later than five years	**6,316,050**	6,608,370	-	-
Later than five years	**7,827,006**	9,229,540	-	-
Gross investment in finance leases	**15,837,892**	17,546,371	-	-
Unearned finance income	**(4,996,892)**	(5,613,535)	-	-
Net investment in finance leases less provisions	**10,841,000**	11,932,836	-	-
Amortisation of finance lease receivables:				
Amounts falling due:				
No later than one year	**779,240**	735,476	-	-
Later than one year and no later than five years	**3,657,726**	3,716,924	-	-
Later than five years	**6,404,034**	7,480,436	-	
Present value of minimum lease receivables	**10,841,000**	11,932,836	-	-
Fair value of amounts receivable under finance leases	**10,841,000**	11,932,836	-	-
Aggregate finance lease rentals receivable in the year	**616,625**	1,076,292	-	-

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates.
The Group has entered into finance leasing arrangements for depots and certain equipment. The terms of the finance leases vary between 10 and 20 years.

Finance lease receivable balances are secured over the depots and equipment leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

The interest rate inherent in the lease is fixed at the contract date for all of the lease terms. The average effective interest rates contracted are between 6% and 10% per annum, (year ended 31 December 2012: 6% and 10%).

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

13 Finance lease receivables (continued)

The fair value of floating rate finance lease receivables is not considered to be significantly different from the carrying value.

The maximum exposure to credit risk of finance lease receivables for the current and prior years is the carrying amount. The finance lease receivables are not past due and are not impaired.

14 Trade and other receivables

	Group		Company	
	As at 31 December 2013	As at 31 December 2012 (restated)	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Receivable no later than one year:				
Trade receivables	**504,722**	167,742	**64,917**	-
Other receivables	**1,409,459**	6,656,423	**47,107**	66,274
Retirement benefit asset (note 30)	**-**	134,000	**-**	-
Maintenance prepayment	**6,965,202**	16,640,784	**-**	-
	8,879,383	23,598,949	**112,024**	66,274
Receivable later than one year:				
Maintenance prepayment	**6,670,704**	7,496,501	**-**	-
	15,550,087	31,095,450	**112,024**	66,274

15 Derivative financial instruments

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Current				
Interest rates swaps - assets	**2,728**	741,177	**-**	-
Non-current				
Interest rates swaps - liabilities	**(58,531,715)**	(97,922,298)	**-**	-

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 year ended 31 December 2013, none of the swaps were designated in hedge accounting relationships (year ended 31 December 2012:nil).

The fair value of derivative financial instruments is based on market rates on 31 December 2013.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

16 Deferred tax

	Group		Company	
	As at 31 December 2013	As at 31 December 2012 (restated)	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Balance at beginning of the year	**(79,232,694)**	(102,295,732)	**-**	23,829
Income statement credit/(charge)	**1,105,560**	23,082,170	**-**	(23,829)
Other comprehensive income:				
Actuarial movement on retirement benefit obligations	**78,350**	(19,132)	**-**	-
Balance at end of the year	**(78,048,784)**	(79,232,694)	**-**	-

Temporary differences relate principally to accelerated capital allowances and depreciation.

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:

	Group		Company	
	As at 31 December 2013	As at 31 December 2012 (restated)	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Deferred tax asset	**141,474**	177,269	**-**	-
Deferred tax liability	**(78,190,258)**	(79,409,963)	**-**	-
	(78,048,784)	(79,232,694)	**-**	-

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions 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 liability at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the reporting date.

Since only the change in the rate to 20% and 21% had been substantively enacted at the reporting date, the effect of this change only is included in these financial statements.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

17 Investments in subsidiaries

	Company	
	As at 31 December 2013 £	As at 31 December 2012 £
Cost at 1 January and 31 December 2013	**393,238,408**	393,238,408

The 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 2013	Ownership Percentage 2012
European Rail Finance Holdings Limited	Ordinary Shares	Ireland	Investment	100	100
European Rail Finance Limited*	Ordinary Shares	Ireland	Leasing	100	100
European Rail Finance (GB) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail Holdings (UK) Limited*	Ordinary Shares	England	Investment	100	100
Eversholt Rail (UK) Limited*	Ordinary Shares	England	Management services	100	100
Eversholt Depot Finance (UK) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (380) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Finance Holdings Limited*	Ordinary Shares	England	Investment	100	100
Eversholt Funding plc*	Ordinary Shares	England	Provision of finance to the Eversholt Rail Group	100	100
European Rail Finance (2) Limited	Ordinary Shares	Ireland	Investment	100	100

*Indirect subsidiaries

18 Loans Receivable

	Group		Company	
	As at 31 December 2013 £	As at 31 December 2012 £	As at 31 December 2013 £	As at 31 December 2012 £
Loan to Eversholt Rail (UK) Limited	**-**	-	**25,255,356**	-
	-	-	**25,255,356**	-

The loan is unsecured, has no fixed repayment terms and is therefore technically repayable on demand. Interest is charged at a margin over GBP Libor.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

19 Cash and cash equivalents
Cash and cash equivalents are analysed as:

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Bank accounts	**88,218,325**	157,478,750	**27,181,819**	26,944,777

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

20 Trade and other payables

	Group		Company	
	As at 31 December 2013	As at 31 December 2012 (restated)	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Trade payables	**6,531,167**	4,236,159	**42,649**	2,576
Lease rentals received in advance	**11,345,363**	17,165,532	**-**	-
Maintenance, acquisition and administrative accruals	**8,362,379**	7,295,744	**127,511**	90,119
Interest accrual	**731,861**	229,924	**-**	-
Retirement benefit liability	**300,000**	-	**-**	-
VAT	**3,012,519**	-	**-**	-
	30,283,289	28,927,359	**170,160**	92,695

21 Obligations under finance leases to third parties

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Total future minimum lease payments				
No later than one year	**18,439,940**	17,721,472	**-**	-
Later than one year and no later than five years	**67,742,171**	62,043,732	**-**	-
Later than five years	**43,879,312**	63,902,495	**-**	-
Gross investment in finance leases	**130,061,423**	143,667,699	**-**	-
Future finance costs	**(34,790,111)**	(44,363,585)	**-**	-
Present value of lease obligations	**95,271,312**	99,304,114	**-**	-
Present value of minimum lease payments				
No later than one year	**10,526,307**	9,100,966	**-**	-
Later than one year and no later than five years	**44,481,079**	34,319,175	**-**	-
Later than five years	**40,263,926**	55,883,973	**-**	-
	95,271,312	99,304,114	**-**	-

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

21 Obligations under finance leases to third parties (continued)

These obligations relate to the head lease arrangement in respect of Class 365 rolling stock. The rolling stock is let on operating leases to third parties. The average effective borrowing rate for the year ended 31 December 2013 was 8.78%, (year ended 31 December 2012: 9.00%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations is approximately equal to the carrying amount.

22 Borrowings

	Group		Company	
	As at 31 December 2013 £	As at 31 December 2012 £	As at 31 December 2013 £	As at 31 December 2012 £
No later than one year				
Interest accrued	**13,124,201**	13,300,857	**-**	-
Bank loans	**16,000,000**	-	**-**	-
Eversholt Rail (UK) Limited	**-**	-	**-**	19,431,368
Eversholt Investment Group (Luxembourg) Sarl	**53,029,072**	14,958,180	**53,029,072**	14,958,180
Capitalised fees	**(1,905,441)**	(3,073,177)	**-**	-
	80,247,832	25,185,860	**53,029,072**	34,389,548
Payable later than one year				
Bank loans	**100,000,000**	341,950,000	**-**	-
Bonds	**1,250,000,000**	1,250,000,000	**-**	-
Other loan	**5,446,965**	5,331,472	**-**	-
Profit participating preference shares	**25,000,000**	25,000,000	**-**	-
Capitalised fees	**(10,279,900)**	(13,738,945)	**-**	-
Eversholt Investment Group (Luxembourg) Sarl	**369,759,872**	369,759,872	**369,759,872**	369,759,872
	1,739,926,937	1,978,302,399	**422,788,944**	369,759,872
	1,820,174,769	2,003,488,259	**422,788,944**	404,149,420

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 Libor plus a margin (year ended 31 December 2012: Libor plus a margin).

Bond principal amount	Due date	Interest rate Semi-annual coupon
£300m	2020	5.8%
£400m	2025	6.4%
£400m	2021-2035	6.7%
£100m	2028-2036	Libor + 2.33%
£50m	2028-2036	5.01%

None of the bonds are puttable.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

22 Borrowings (continued)

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 with 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. Interest is charged on the loan at 14.06% (period ended 31 December 2012: 14.06%).

23 Provisions

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
Payable no later than one year	£	£	£	£
Engineering costs	**167,124**	138,562	-	-
Payable after one year				
Engineering costs	**55,000**	83,562	-	-
	222,124	222,124	-	-

Provision for engineering costs relates to the cost of endemic faults to rolling stock. The projects to rectify these faults are ongoing.

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
	£	£	£	£
Balance at 1 January	**222,124**	339,125	-	-
Utilised	-	(27,969)	-	-
Provision reversed	-	(89,032)	-	-
Balance at 31 December	**222,124**	222,124	-	-

24 Deferred revenue

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

	Group		Company	
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2013	As at 31 December 2012
Deferred revenue	£	£	£	£
Current asset:				
Arising in respect of maintenance contracts	**567,008**	698,793	-	-
Non-current liability:				
Arising in respect of maintenance contracts	**(117,368,076)**	(90,271,953)	-	-
	(116,801,068)	(89,573,160)	-	-

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

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

25 Share capital

	Company As at 31 December 2013 £	Company As at 31 December 2012 £
Authorised, allotted, called up and fully paid		
12,000 Ordinary shares of £1 each	**12,000**	12,000

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

26 Notes to the cash flow statement

26.1 Adjustments for non-cash items

	Group Year ended 31 December 2013 £	Group Year ended 31 December 2012 (restated) £	Company Year ended 31 December 2013 £	Company Year ended 31 December 2012 £
Depreciation	**137,185,593**	147,230,385	**7,404**	5,292
Fair value adjustment on derivative financial instruments	**(34,713,307)**	23,994,072	**-**	-
Profit on disposal of property, plant and equipment	**(645,000)**	(3,283,444)	**-**	-
Adjustment for non-cash element of pension charge	**59,000**	(45,000)	**-**	-
Unwinding of capitalised finance charges	**13,835,898**	4,634,361	**-**	-
Interest on borrowings	**147,590,568**	155,118,438	**53,190,804**	56,545,241
Adjustments for non-cash items	**263,312,752**	327,648,812	**53,198,208**	56,550,533

26.2 Finance expenses paid

	Group Year ended 31 December 2013 £	Group Year ended 31 December 2012 £	Company Year ended 31 December 2013 £	Company Year ended 31 December 2012 £
Bank loans	**(6,192,519)**	(12,992,415)	**-**	-
Bonds	**(75,192,521)**	(69,728,000)	**-**	-
Eversholt Investment Group (Luxembourg) Sarl	**-**	(62,649,382)	**-**	(62,649,382)
Profit participating preference dividends	**(717,963)**	(1,385,755)	**-**	-
Derivative financial instrument	**(3,820,881)**	(6,403,356)	**-**	-
Finance costs	**(9,209,115)**	(1,363,480)	**-**	-
Other interest	**(21,633)**	(42,096)	**13**	(3,299)
Interest on finance leases (365)	**(8,524,558)**	(9,269,797)	**-**	-
Intercompany interest paid on working capital loan	**-**	-	**-**	(1,114,228)
	(103,679,190)	(163,834,281)	**13**	(63,766,909)

Included in finance costs is £7,408,113 of costs which have been capitalised (year ended 31 December 2012: £93,246).

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

27 Capital commitments

In respect of capital expenditure:

	Group		Company	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	£	£	£	£
Authorised and contracted	**17,069,000**	9,285,000	**114,000**	**-**

The capital expenditure is in respect of enhancements to existing rolling stock and for the purchase of other assets.

28 Dividends

For the year ended 31 December 2013 no dividends were paid (31 December 2012 : £40,005,758).

29 Fair values 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 31 December 2013 or 31 December 2012.

30 Retirement benefit obligations

30.1 General description of scheme

Final salary pension

Eversholt Rail (UK), a group undertaking provides a defined benefit pension scheme to its employees.

The Eversholt Rail (UK) Limited section (the “Section”) is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme.

The Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The figures reported below therefore represent only the Company’s share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the period are presented before the deduction of the members’ share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency, with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

30 Retirement benefit obligations (continued)

30.1 General description of scheme (continued)

Employer contributions for the year ending 31 December 2013 are 19.1% (31 December 2012: 19.1%) of Section Pay. The Section is open to new members.

30.2 Membership data

	31 December 2013	31 December 2012
Active members		
Number	**28**	32
Number with PRP included	**21**	25
Annual payroll (£)	**1,765,000**	2,153,000
PRP included (£)	**84,000**	100,000
Average age	**49.1**	49.0
Deferred members		
Number	**51**	49
Total deferred pensions (£)	**354,000**	303,000
Average age	**50.4**	49.6
Pensioner members (including dependants)		
Number	**36**	34
Annual pension payroll (£)	**929,000**	806,000
Average age	**63.7**	63.7

30.3 Summary of assumptions

	31 December 2013 % pa	31 December 2012 % pa
Discount rate	**4.35**	4.30
Price inflation (RPI measure)	**3.35**	2.90
Increases to deferred pensions (CPI measure)	**2.35**	1.90
Pension increases (CPI measure)	**2.35**	1.90
Salary increases *	**4.85**	4.40

* Plus 0.4% per annum promotional salary scale.

** The expected return on Section assets assumption was determined as the average of the expected returns on the assets held by the Section on the accounting date. The rates of return for each class are set out in the table below and were determined as follows:

- **Equities and property:** The rate adopted is consistent with the median assumption used in the Asset Liability Modelling work carried out by our advisers.
- **Bonds:** The overall rate has been set to reflect the yields on the bond holdings, adjusted where appropriate for the risk of default.
- **Other assets:** This class is mostly made of cash holdings and the rate adopted reflects current short-term returns on such deposits.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

30 Retirement benefit obligations (continued)

30.3 Summary of assumptions (continued)

	Long-term rate of return expected on 31 December 2013	Value at 31 December 2013	Long-term rate of return expected on 31 December 2012	Value at 31 December 2012
	% pa	£	% pa	£
Growth Assets	**N/A**	**19,363,000**	N/A	18,415,000
Defensive pooled fund	**N/A**	**12,603,000**	N/A	12,287,000
Other assets	**N/A**	**70,000**	N/A	315,000
	N/A	**32,036,000**	N/A	31,017,000

The assumed average expectation of life in years at age 65 is as follows:

		31 December 2013	31 December 2012
Male currently age 65	Pension under £9,300 pa or pensionable pay under £35,000 pa	**20.7**	20.6
	Others	**22.9**	22.8
Male currently age 45	Pension under £9,300 pa or pensionable pay under £35,000 pa	**23.1**	23.0
	Others	**25.1**	25.0
Female currently age 65	Pension under £3,300 pa or pensionable pay under £35,000 pa	**22.6**	22.5
	Others	**25.0**	24.9
Female currently age 45	Pension under £3,300 pa or pensionable pay under £35,000 pa	**25.1**	25.0
	Others	**27.4**	27.3

30.4 Defined Benefit (liability)/asset at end of year

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£	£
Defined Benefit Obligation at end of year		
Active members	**(8,120,000)**	(10,365,000)
Deferred members	**(6,907,000)**	(5,335,000)
Pensioner members (incl. dependants)	**(17,509,000)**	(14,525,000)
Total	**(32,536,000)**	(30,225,000)
Value of assets at end of year	**32,036,000**	31,017,000
Funded Status at end of year	**(500,000)**	792,000
Adjustment for the members' share of deficit/(surplus)	**200,000**	(317,000)
Effect of Asset Ceiling	**-**	(341,000)
Net Defined Benefit (liability)/asset at end of year	**(300,000)**	134,000

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

30 Retirement benefit obligations (continued)

30.5 Reconciliation of Net Defined Benefit (Liability)/Asset

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£	£
Opening Net Defined Benefit (Liability)/Asset	**134,000**	-
Employer's share of pension (expense)/ income	**(399,000)**	(383,000)
Employer contributions	**340,000**	428,000
Total (loss)/gain recognised in statement of comprehensive income	**(375,000)**	89,000
Closing Defined Benefit (Liability)/Asset	**(300,000)**	134,000

30.6 Pension expense

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£	£
Employer's share of Service Cost	**355,000**	356,000
Employer's share of administration costs	**55,000**	39,000
Total employer's share of service cost	**410,000**	395,000
Employer's share of net interest on net defined benefit liability/(asset)	**(11,000)**	(12,000)
Employer's share of pension expense/(income)	**399,000**	383,000

30.7 Other comprehensive income

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£	£
(Gain)/loss due to liability experience	**(138,000)**	251,000
Loss due to liability assumption changes	**1,100,000**	771,000
Return on plan assets greater than discount rate	**(231,000)**	(486,000)
Change in effect of the asset ceiling	**(356,000)**	(625,000)
Total loss/(gain) recognised in statement of comprehensive income	**375,000**	(89,000)

30.8 Reconciliation of Defined Benefit Obligation (DBO)

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£	£
Opening Defined Benefit Obligation	**30,225,000**	27,530,000
Service Cost	**577,000**	576,000
Interest Cost	**1,277,000**	1,303,000
(Gain)/loss on DBO - experience	**(276,000)**	323,000
(Gain)/loss on DBO – financial assumptions	**1,833,000**	1,285,000
Actual benefit payments	**(1,100,000)**	(792,000)
Closing Defined Benefit Obligation	**32,536,000**	30,225,000

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

30 Retirement benefit obligations (continued)

30.9 Reconciliation of value of assets

	Year ended 31 December 2013 £	Year ended 31 December 2012 (restated) £
Opening value of section assets	**31,017,000**	29,074,000
Interest income on assets	**1,318,000**	1,389,000
Return on plan assets greater than discount rate	**386,000**	810,000
Employer contributions	**340,000**	428,000
Employee contributions	**167,000**	173,000
Actual benefit payments	**(1,100,000)**	(792,000)
Administration costs	**(92,000)**	(65,000)
Closing value of Section asset	**32,036,000**	31,017,000

Tables 30.8 and 30.9 above show the movement in the assets and liabilities of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures which reflect the Group's share of the assets and liabilities associated with the section.

30.10 Reconciliation of effect of asset ceiling

	Year ended 31 December 2013 £	Year ended 31 December 2012 (restated) £
Opening effect of asset ceiling	**341,000**	926,000
Interest on asset ceiling	**15,000**	40,000
Change in asset ceiling over the period	**(356,000)**	(625,000)
Closing effect of asset ceiling	**-**	341,000

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

31 Risk management

The Group 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 Group 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, are described in this note.

31.1 Residual value risk

One of the key drivers of the Group'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 Group 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.

There has been no change to the group's exposure to residual value risks or the manner in which these risks are managed and measured.

31.2 Capital risk management

The Board actively monitors the capital structure of the Group to ensure that all Group entities are able to continue as going concerns. 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 Group consists of debt and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group 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.

31.3 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 Group 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 in arrears.

30.4 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group 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 Group's assets, net of deferred tax, are funded principally by borrowings from a parent undertaking and third parties.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

31 Risk management (continued)

31.4 Liquidity risk management (continued)

The following is an analysis of undiscounted cash flows payable under financial liabilities by remaining contractual maturities at the end of the reporting period:

Group

31 December 2013	Carrying value £	Contractual cash flows £	On demand £	Due within 1 year £	Due between 1-5 years £	Due after 5 years £
Financial assets						
Loans and receivables						
Finance lease receivables	**10,841,000**	**15,837,892**	**-**	**1,694,836**	**6,316,050**	**7,827,006**
Trade and other receivables	**15,550,087**	**15,550,087**	**-**	**8,879,383**	**6,670,704**	**-**
Derivative financial instruments	**2,728**	**12,379**	**-**	**12,379**	**-**	**-**
	26,393,815	**31,400,358**	**-**	**10,586,598**	**12,986,754**	**7,827,006**
Cash and cash equivalents	**88,218,325**	**88,218,325**	**61,300,825**	**-**	**26,917,500**	**-**
Financial liabilities						
Available for sale financial instruments						
- Derivative financial instruments	**(58,531,715)**	**(72,946,580)**	**-**	**(6,100,884)**	**(29,574,043)**	**(37,271,653)**
Other financial liabilities – amortised cost						
- Trade and other payables	**(30,283,289)**	**(30,283,289)**	**-**	**(30,283,289)**	**-**	**-**
- Obligations under finance lease	**(95,271,312)**	**(130,061,423)**	**-**	**(18,439,940)**	**(67,742,171)**	**(43,879,312)**
- Borrowings	**(1,820,174,769)**	**(2,805,021,088)**	**-**	**(93,176,042)**	**(418,772,878)**	**(2,293,072,168)**
	(1,945,729,370)	**(2,965,365,800)**	**-**	**(141,899,271)**	**(486,515,049)**	**(2,336,951,480)**
Total financial instruments	**(1,889,648,945)**	**(2,918,693,697)**	**61,300,825**	**(137,413,557)**	**(476,184,838)**	**(2,366,396,127)**

Group

31 December 2012	Carrying value £	Contractual cash flows £	On demand £	Due within 1 year £	Due between 1-5 years £	Due after 5 years £
Financial assets						
Loans and receivables						
Finance lease receivables	11,932,836	17,546,371	-	1,708,461	6,608,370	9,229,540
Trade and other receivables (restated)	31,095,450	31,095,450	-	23,598,949	7,496,501	-
Derivative financial instruments	741,177	483,794	-	483,794	-	-
	43,769,463	49,125,615	-	25,791,204	14,104,871	9,229,540
Cash and cash equivalents	157,478,750	157,478,750	130,561,250	-	26,917,500	-
Financial liabilities						
Available for sale financial instruments						
- Derivative financial instruments	(97,922,298)	(103,432,659)	-	(7,423,599)	(36,982,076)	(59,026,984)
Other financial liabilities – amortised cost						
- Trade and other payables (restated)	(28,927,359)	(28,927,359)	-	(28,927,359)	-	-
- Obligations under finance lease	(99,304,114)	(143,667,697)	-	(17,721,470)	(62,043,732)	(63,902,495)
- Borrowings	(2,003,488,259)	(3,104,052,678)	-	(113,271,101)	(673,652,003)	(2,317,129,574)
	(2,131,719,732)	(3,276,647,734)	-	(159,919,930)	(735,695,735)	(2,381,032,069)
Total financial instruments	(2,028,393,817)	(3,173,476,028)	130,561,250	(141,552,325)	(731,655,440)	(2,430,829,513)

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2013

31 Risk management (continued)

31.4 Liquidity risk management (continued)

Company

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£	£	£	£	£	£
31 December 2013						
Financial assets						
- Loans and receivables	**25,255,356**	**25,255,356**	**25,255,356**	**-**	**-**	**-**
- Trade and other receivables	**112,024**	**112,024**	**-**	**112,024**	**-**	**-**
	25,367,380	**25,367,380**	**25,255,356**	**112,024**	**-**	**-**
Cash and cash equivalents	**27,181,819**	**27,181,819**	**764,319**	**-**	**26,417,500**	**-**
Financial liabilities						
Non – derivative instruments – amortised cost						
- Trade and other payables	**(170,160)**	**(170,160)**	**-**	**(170,160)**	**-**	**-**
- Borrowings	**(422,788,944)**	**(422,788,944)**	**-**	**-**	**-**	**(422,788,944)**
	(422,959,104)	**(422,959,104)**	**-**	**(170,160)**	**-**	**(422,788,944)**
Total financial instruments	**(370,409,905)**	**(370,409,905)**	**26,019,675**	**(58,136)**	**26,417,500**	**(422,788,944)**

Company

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£	£	£	£	£	£
31 December 2012						
Financial assets						
- Trade and other receivables	66,274	66,274	-	66,274	-	-
Cash and cash equivalents	26,944,777	26,944,777	527,277	-	26,417,500	-
Financial liabilities						
Non – derivative instruments – amortised cost						
- Trade and other payables	(92,695)	(92,695)	-	(92,695)	-	-
- Borrowings	(389,191,240)	(404,149,420)	(19,431,368)	(14,958,180)	-	(369,759,872)
	(389,283,935)	(404,242,115)	(19,431,368)	(15,050,875)	-	(369,759,872)
Total financial instruments	(362,272,884)	(377,231,064)	(18,904,091)	(14,984,601)	26,417,500	(369,759,872)

Only the derivative financial instruments are measured subsequent to initial recognition at fair value. All derivative financial instruments are grouped into level one, based on the degree to which the fair value is observable. Level one fair value measurements are those derived from quoted prices unadjusted, in active markets for identical assets or liabilities.

Bonds with a carrying value of £1,250,000,000 (31 December 2012: £1,250,000,000) have a fair value of £1,427,023,800 (31 December 2012: £1,503,237,000) and would fall into the level one group. The Company lends to other group entities on terms which reflect the terms of the external bonds. Consequently included in loan receivables are £1,250,000 (31 December 2012: £1,250,000,000) of receivables which have a fair value of £1,427,023,800 (31 December 2012: £1,503,237,000) which fall into the level two group. There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2013.

Of the cash and cash equivalents, £26,917,500 relates to cash held on deposit as security for the holders of the PPS in European Rail Finance Holdings (£26,417,500) and for the trustees for the bond holders (£500,000).

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

31 Risk management (continued)

31.4 Liquidity risk management (continued)

Market Risk

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

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at fixed and floating interest rates. The risk is managed by the Group to maintain an appropriate mix between fixed and floating rate borrowings by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with hedging policy and defined risk appetite.

	Group		Company	
	2013	**2012**	**2013**	**2012**
Fixed rate instruments				
Financial liabilities	**(1,712,723,963)**	(1,647,998,567)	**(422,788,944)**	(384,718,052)

31.5 Interest rate Sensitivity Analysis

	Group		Company	
	2013	**2012**	**2013**	**2012**
Variable rate instruments				
Financial assets	**10,843,728**	12,674,013	**25,255,356**	-
Financial liabilities	**(272,802,323)**	(552,946,027)	**-**	(19,431,368)
	(261,958,595)	(540,272,014)	**25,255,356**	(19,431,368)

The impact of a 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £62,971 on unhedged debt, this would be offset by an increase in cash deposit interest received of £890,380. A 50 basis points upwards parallel shift in the yield curve would have decreased the derivative liability by £17,185,938.

32 Operating lease arrangement

The group as lessor

At the reporting date, the Group had contracted with lessees for the following future minimum lease payments.

	Group		Company	
	2013	**2012**	**2013**	**2012**
Within one year	**156,642,570**	232,700,599	**-**	-
2-5 years	**162,533,530**	270,705,635	**-**	-
Over 5 years	**153,887,552**	166,549,121	**-**	-
	473,063,652	669,955,355	**-**	-
Aggregate operating lease rentals receivable in the year	**280,098,844**	279,843,201	**-**	-

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2013

33 Related-party transactions

33.1 Identity of related parties

The ultimate parent undertaking (which is the ultimate controlling party) is Eversholt Investment Group (Luxembourg) Sarl.

33.2 Transactions with related parties

Loans with Eversholt Investment Group (Luxembourg) Sarl are more fully described in note 22. Interest on these loans is disclosed in note 6.

Directors' emoluments are disclosed in note 9.

On 6 November 2013, the Group provided an unsecured interest free loan of £518,693 (2012: £nil) to a Director of a subsidiary company for the purposes of acquisition of shares in the ultimate parent company, Eversholt Investment Group (Luxembourg) Sarl. At 31 December 2013, the balance outstanding was £518,693 (2012: £nil) and is included in trade and other receivables (see note 14).

34 Contingent liabilities

There were no contingent liabilities for the Group or Company at 31 December 2013 (31 December 2012: nil).

35 Subsequent events

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