Eversholt Investment Limited

Financial Statements
for the year ended 31 December 2012

Registered No: IR490363

Contents

Annual review

The Directors of Eversholt Investment Limited (EIL) present their annual review for the year to 31 December 2012 for EIL and its subsidiaries (collectively "Eversholt Rail").

Executive summary

The year was dominated by the passenger refranchising process. Eversholt Rail was well placed for the start of this process, following detailed planning and proactive engagement with the various stakeholders in 2011. The Inter-City West Coast franchise was the first scheduled to be re-let in 2012 with the Great Western, Essex Thameside, Thameslink Southern and Great Northern and Inter-City East Coast franchises to follow. However, in October, the Department for Transport announced the cancellation of the Inter-City West Coast franchise and the pausing of all of the other outstanding franchise competitions. This followed the discovery of problems with its handling of the Inter-City West Coast tendering competition. The Department instigated two inquiries: Laidlaw and Brown. The outcomes of which were published in December 2012 and January 2013, respectively. Eversholt Rail awaits the Department's full response to the recommendations and comments included in these reports, but it has already announced that the deferment of the franchising competition for Great Western, Essex Thameside and Thameslink Southern-Great Northern will be up to two and a half years.

Despite these external factors, the business has continued to perform well in 2012. All of Eversholt Rail's passenger fleets were on lease throughout the year and the business invested £18m to enhance its existing rolling stock. Financial performance was in line with expectations with a turnover of £349m, maintenance spend of £59m and overheads of £15m.

In December, Eversholt Rail raised £150m through a private placement with Metropolitan Life Insurance Company ("MetLife"). The proceeds were applied to repay the full balance outstanding on the business's revolving working capital facility and to part repay other bank funding.

Eversholt Rail also unveiled an illustrative mock-up of a refurbished Mark IV carriage that it proposes to offer bidders for the East Coast Mainline franchise. The mock-up was very well received by potential bidders, industry partners and industry press.

Business environment and trends

Key announcements

- Cancellation of the Inter City West Coast franchise in October.
- Two new rolling stock programmes by Southern Railway.

The UK passenger rail industry continues to be affected by last year's delay following the cancellation of the Inter City West Coast (ICWC) franchise and the pausing of all of the other outstanding franchise competitions.

Annual review (continued)

Franchising

In August 2011 the Department for Transport ("DfT") announced its new franchising programme, which was the most ambitious since privatisation. Throughout 2012, Eversholt Rail continued its discussions with key stakeholders in relation to ICWC, Great Western, Essex Thameside, Thameslink Southern and Great Northern ("TSGN"), Inter City East Coast ("ICEC") and Greater Anglia franchise proposals.

On the 3rd October, the DfT announced the cancellation of the ICWC franchise and the pausing of all of the other outstanding franchise competitions. The cancellation of the ICWC franchise competition followed the discovery of problems with the DfT's handling of the tendering competition.

As a result, the DfT ordered two independent inquiries to be undertaken: the first to find out what went wrong with the ICWC franchise and the second to consider the implications for the wider rail franchising programme and how to get the other franchise competitions back on track as soon as possible.

The first inquiry, which was published at the beginning of December was conducted by Sam Laidlaw, a Non-Executive Director of the DfT. The second inquiry was conducted by Richard Brown, Chairman of Eurostar, and was published in January 2013.

In response, the Government decided to terminate the Greater Western franchise competition and negotiate a two-year extension with the incumbent operator FirstGroup. It is anticipated that extensions of up to two and a half year are also planned for Essex Thameside and TSGN, details of which are due to be announced in Spring 2013, alongside a clear programme for future franchise competitions and a policy statement.

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 Railways. 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.

In addition, the Government is also supporting Southern's tendering process for a further 116 new electric carriages, with an option for another 140 carriages (increased recently, at DfT's specific request, from 100). The requirement is for 110mph dual-voltage Electric Multiple Units (EMU) in 4-car configuration.

Electrification

The Government announced its draft High Level Output Specification (HLOS) and Statement of Funds Available (SOFA) in July 2012. The HLOS included details of all of the planned routes due for electrification, apart from the Gospel Oak to Barking route. It also included a proposal for a 25kv "backbone" for rail freight traffic to run from Southampton to Nuneaton and Sheffield, via Oxford and and/or Coventry. The HLOS also included plans for the electrification of the Welsh Valleys and the Cardiff to Swansea route.

Since 75% of Eversholt Rail's passenger fleet is electrically powered, the Government's plans for wider electrification will create new markets and additional opportunities for deploying our fleets. Eversholt Rail is in discussions with the current (and potential) operators of franchises, which are likely to benefit from such additional electrification.

Directors' report (continued)
for the year ended 31 December 2012

Annual review (continued)

Financial Performance

Key performance indicators

- Turnover £349m.
- EBITDA £276m.
- EBT £(52)m.
- Company rating at year end: Fitch A- and S&P BBB negative outlook.
- Eversholt Rail is compliant with all its financial covenants.

The negative earnings before tax of £52m is calculated after charging £55m of interest on loans provided by EIL's shareholder and after accounting for an unrealised loss of £24m on the business's swap contracts, when they are "marked-to- market". Before these charges, Eversholt Rail made a profit of £27m, with a pre-tax margin on its turnover of 5%.

Trading performance in 2012

The business's financial performance was in line with its turnover expectations of £349m, with maintenance spend of £59m and overheads of £15m. 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 £18m during the year.

Financing activities

In December 2012, Eversholt Rail raised £150m through a private placement with MetLife. The proceeds were applied to repay the full balance outstanding on the business's revolving working capital facility and to part repay its short-term funding. The business also repaid an additional £55 million of its bank facilities from operational cashflows.

Covenants

Eversholt Rail continues to comply with all of its financial covenants at 31 December 2012, which were as follows.

Covenant	Actual	Lock-up level
Net Debt to EBITDA	5.52x	>7.00
Interest Cover Ratio	2.71x	<1.75
NPV Test	49.0%	>68%

Directors' report (continued)
for the year ended 31 December 2012

Annual review (continued)

Debt management

Eversholt Rail's debt ratings with Fitch and S&P remain unchanged at year end at A- and BBB respectively. During 2012 S&P placed Eversholt Rail on a negative outlook, reflecting its view of the business's dividend/debt policies. Eversholt Rail's intention is to secure a return to a stable S&P outlook in 2013, following the reduction in debt levels at the end of last year. The key ratio monitored by S&P, which is not one of the business's covenanted ratios, is Free Funds / Debt.

Eversholt Rail manages its debt levels to comply with its internal targets for all debt covenants that are more stringent than the covenanted limits. Consistent with this, the business funded £18m of capital expenditure on fleet enhancements from operating cashflows and made repayments of bank debt of £55m, in addition to the £150m of bank debt repaid from the proceeds of the MetLife private placement. This new debt has a final maturity of 2036, and as a result, the average maturity of the group's debt was extended from 2022 to 2025.

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. As at 31 December 2012, 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), Stephen Halliwell (3i), Laura Carballo (Star Capital), and Ivo Hemelraad (Vistra for Star Capital), plus one independent director: Wim J.A. Rits (Vistra).

Annual review (continued)

Eversholt Investment Limited and its Owners (continued)

Virginia Strelen (Vistra for Star Capital) was replaced by Ivo Hemelraad (Star Capital) on the 1st November 2012.

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. This team also manages the provision of a range of asset management and administrative services to EIL and its Irish subsidiaries. As at 31 December 2012, the other members of the management team were:

- Simon Purves, Chief Financial Officer;
- Richard Carrington, Head of Projects and Procurement;
- Kevin Limb, Head of Asset Management;
- John Reddyhoff , Head of Engineering;
- Clive Thomas, Head of Commercial and Business Services;
- Steve Timothy, Head of Relationship Development.

The Business of the Eversholt Rail Group

Key performance indicators

- Approximately 28% of UK passenger rolling stock market.
- Turnover of £349m. £281m from capital rents and £67m in non-capital rents for the procurement of heavy maintenance on wet leases.
- LSER was Eversholt Rail's largest customer (31% 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 to its customers including: regional, commuter and high speed passenger trains. Such customers are known as 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 2012, the business spent £59m on heavy maintenance, which spend was exclusively incurred with UK-based suppliers supporting employment in the UK regions.

Directors' report (continued)
for the year ended 31 December 2012

Annual review (continued)

The Business of the Eversholt Rail Group (continued)

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 three of the 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)	31%
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 2012 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 2012 this continued with a utilisation level of 100% of its passenger rolling stock.

Annual review (continued)

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.

Since privatisation, Eversholt Rail has selectively invested in new rolling stock. In recent years, it has purchased the Class 395 and Class 380 fleets. 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.

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

Fleet overview

Key performance indicators

- Number of passenger vehicles 3,474.
- EMUs comprise 75% of the passenger fleet.
- Number of freight vehicles 1,087.
- Average age of the fleet is 17.6 years.
- £59m spent on heavy maintenance in 2012.

The Eversholt Rail's passenger rolling stock portfolio consists of 19 separate fleets, comprising of 3,474 passenger vehicles, of which over 2,500 are electric-powered. 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 1013 freight wagons consisting primarily of container flats and coal hoppers.

The average age of the fleets is 17.6 years and varies from the 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)

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. Eversholt Rail thus has an excellent knowledge of the current condition of its fleets.

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 2012 Eversholt Rail organised an exhibition entitled 'Our Vision – Your Choice' to demonstrate the capabilities of its Mark IV coaches. The focus of the exhibition was a Mark IV mock-up that had been designed to show the various modification options available to the next franchisee of the ICEC franchise. The first two phases of the exhibition in London (3rd – 5th December 2012) and York (10th – 12th December) were well attended by key industry stakeholders. It is estimated that when compared with new build options, the type of refurbishment displayed could provide estimated lease cost savings of circa £1bn over the lifetime of the last planned new East Coast franchise.

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.

Annual review (continued)

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 is 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. This helps Eversholt 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 guaranteeing to provide a future substitute lessee for rolling stock for a specific period of time.

An assessment is carried out by management every six months to reconfirm the commercial value of all assets, by measuring the present value of the net anticipated cashflows arising from ownership over the remaining assumed life of the assets. This assessment is undertaken at an asset by 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.

Annual review (continued)

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 new build and 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 Head of Engineering, 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 2012, the business has been subject to three external reviews. Eversholt Rail has undertaken a business culture survey using a specialist consultancy from the aviation industry. Over 40% of the staff were involved either in confidential interviews, or through focus groups and Eversholt Rail received a positive report about the attitudes across the business, including perceptions of the way that the business is managed.

Eversholt Rail have been successfully reassessed against the requirements of ISO9000 and also for RISAS, the Railway Industry Supplier Approval Scheme, which is a supplier accreditation process sponsored by the railway industry and is a rigorous assessment against industry-wide standards and practices.

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

Directors' report (continued)
for the year ended 31 December 2012

Annual review (continued)

Employees

Key performance indicators

- Eversholt Rail had 96 employees at 31 December 2012.
- 11 new employees joined the business.
- 7 employees left, including 4 retirements.

Current employees

Eversholt Rail seeks to attract people, who wish to work for an organisation with strong and sound values, which are both meritocratic and competitive and which offer challenging career development.

Eversholt Rail aims to develop personal and technical skills, by identifying the 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.

A number of initiatives were developed in 2012 to attract, develop, motivate and retain talented members of staff with high levels of expertise.

Eversholt Rail continues to invest in professional qualifications. In 2012 a number of employees are currently working towards obtaining "Chartered" status in their related disciplines.

Joiners and leavers

11 employees joined the business during 2012. In addition, Eversholt Rail offered three work experience placements for individuals in full time education. In total, 7 employees left the company during 2012, 4 retirements and 3 for alternative employment.

Social and community activities

Eversholt Rail encourages its employees to become active members of their communities, providing paid time-off for employees to undertake a wide variety of charitable, educational, environmental and socially inclusive activities, including working on charity and school boards of trustee/governors, mentoring pupils, and environmental initiatives.

Annual review (continued)

Sustainability

Key performance indicators

- 47 entries at 3rd edition of the green awards.
- 6 Green IT sessions held in 2012.
- 121 trees saved as result of recycling the content of the confidential bins.

Rail is considered to be one of the greener and more environmentally-friendly modes of transportation. 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, suppliers to do the same.

Sustainability is important to Eversholt Rail and the message is inherent in the various strands of our strategy. The following section covers some of the highlights of Eversholt Rail's 2012 sustainability related activities.

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 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 record number of entries for the 3rd edition of the green awards held in December 2012. The green awards are for two categories, office innovation and asset efficiency. The 3rd edition of the green awards received 47 entries taking the total number of entries for the three editions of the green awards to 118. This is a significant number for 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.

Green IT sessions

Introduced Green IT lunch and learn sessions to share sustainable IT practices through the business. Six green IT sessions were held in 2012 and they were well attended.

Recycling

Eversholt Rail uses a confidential bin shredding service provider who recycles the content in the confidential waste bins, printer cartridges etc. In 2012, Eversholt Rail saved 121 trees as result of recycling the content of the confidential bins in the office, this equates to reduction in landfill space by 302 cubic meters.[1]

2013 objectives

The sustainability initiatives in 2011 and 2012 mainly focused on office related changes in order develop a positive sustainability culture in the business. The 2013 initiative will increase its scope to include asset related projects to make the fleet more sustainable.

[1] Number of saved trees and landfill space saved metric provided by confidential waste disposal service provider.

Directors' report (continued)
for the year ended 31 December 2012

Principal activities

Eversholt Investment Limited (the "Company"), was incorporated on 19 October 2010 to acquire the Eversholt Rail Group (the "Group"). The comparative period therefore covers the fourteen months from incorporation to 31 December 2011.

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 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 2012, the Group has continued its business of owning and leasing rolling stock and other railway assets.

During the year, the Group formed European Rail Finance (2) Limited as a subsidiary of European Rail Finance Holdings Limited.

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 cashflows 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 2012 are as detailed in the Income statement on page 21.

The key performance indicator used by management in assessing the performance of the Group is the monitoring of actual cashflows in comparison with the planned cashflows determined at the inception of the lease transactions. Monthly management accounts are prepared and reviewed by the 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 East Coast to develop a duplex pantograph trial on one Class 91 locomotive to address a key single point failure and a CCTV upgrade with Greater Anglia, providing a "future proof" system on both the Class 315 and Class 321 fleets.

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 for the Essex Thameside, Thameslink Southern Great Northern and Greater Western franchises.

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

On 23 March 2012, the Directors declared a dividend of £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' report (continued)
for the year ended 31 December 2012

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.

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.

Directors' report (continued)
Directors' responsibility and approval of the annual financial statements
for the year ended 31 December 2012

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 period.

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 2012. 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 2012.

The Consolidated and separate financial statements were approved by the Board of Directors on 28 February 2013 and signed on their behalf by:

C Cullen
Director

B Hayden
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 2012

We have audited the group and parent company financial statements ("financial statements") of Eversholt Investment Limited for the year ended 31 December 2012 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 2012 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 2012.

Matters on which we are required to report by the Companies Acts 1963 to 2012

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 2012 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 2012

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 2012 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

28 February 2013

Consolidated and separate income statements
for the year ended 31 December 2012

	Notes	Group Year ended 31 December 2012 £	Group Period ended 31 December 2011 £	Company Year ended 31 December 2012 £	Company Period ended 31 December 2011 £
Revenue					
Finance lease income		**1,076,292**	1,257,505	-	-
Operating lease income		**279,843,201**	293,039,372	-	-
Maintenance income		**67,227,531**	78,995,403	-	-
Other revenue		**664,455**	1,656,559	-	-
Total income		**348,811,479**	374,948,839	-	-
Cost of sales	4	**(205,805,128)**	(246,749,354)	-	-
Gross profit		**143,006,351**	128,199,485	-	-
Dividends receivable		-	-	**165,000,000**	-
Finance income	5	**1,778,985**	844,156	**898,731**	734,784
Finance expense	6	**(161,531,784)**	(184,976,406)	**(56,545,241)**	(66,085,913)
Net loss on fair value adjustment on derivatives		**(23,994,072)**	(63,692,751)	-	-
Pension finance credit	30	**374,000**	370,000	-	-
		(40,366,520)	(119,255,516)	**109,353,490**	(65,351,129)
Acquisition costs		-	(28,683,665)	-	-
Administrative expense	7	**(14,793,677)**	(14,618,266)	**(961,423)**	(586,117)
Profit on disposal of property, plant and equipment		**3,283,444**	2,062,646	-	-
(Loss)/profit before tax		**(51,876,753)**	(160,494,801)	**108,392,067**	(65,937,246)
Income tax credit/(charge)	10	**2,984,971**	21,599,293	**(174,198)**	23,829
(Loss)/profit for the year/period		**(48,891,782)**	(138,895,508)	**108,217,869**	(65,913,417)

There were no discontinued or discontinuing operations during the year/period.

Statements of consolidated and separate comprehensive income
for the year ended 31 December 2012

	Notes	Group Year ended 31 December 2012 £	Group Period ended 31 December 2011 £	Company Year ended 31 December 2012 £	Company Period ended 31 December 2011 £
(Loss)/profit for the year/period		**(48,891,782)**	(138,895,508)	**108,217,869**	(65,913,417)
Other comprehensive expense					
Actuarial losses on defined benefit scheme	30	**(946,000)**	(1,623,000)	-	-
Tax in respect of actuarial losses on defined benefit scheme	16	**231,615**	443,225	-	-
Total comprehensive (expense)/income for the year/period		**(49,606,167)**	(140,075,283)	**108,217,869**	(65,913,417)

The notes on pages 24 to 52 form an integral part of these financial statements.
The financial statements were approved by the board of directors and authorised for issue on 28 February 2013. They were signed on its behalf by:

C Cullen
Director
Company registration numer IR490363

B Hayden
Director

Statements of consolidated and separate financial position
as at 31 December 2012

		Group		Company	
		As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Assets	*Notes*	£	£	£	£
Non-current assets					
Property, plant and equipment	11	**1,990,972,733**	2,122,866,072	**29,166**	22,949
Finance lease receivables	13	**11,197,360**	11,930,900	**-**	-
Trade and other receivables	14	**7,496,501**	16,962,580	**-**	-
Deferred tax	16	**209,469**	316,033	**-**	23,829
Investment in subsidiaries	17	**-**	-	**393,238,408**	393,238,408
Derivative financial instrument	15	**741,177**	-	**-**	-
		2,010,617,240	2,152,075,585	**393,267,574**	393,285,186
Current assets					
Inventory	12	**2,021,813**	2,252,058	**-**	-
Finance lease receivables	13	**735,476**	661,532	**-**	-
Trade and other receivables	14	**23,464,949**	24,676,917	**66,274**	73,110
Loans receivable	18	**-**	-	**-**	23,398,949
Cash and cash equivalents	19	**157,478,750**	192,053,644	**26,944,777**	26,553,010
Deferred revenue	24	**698,793**	-	**-**	-
		184,399,781	219,644,151	**27,011,051**	50,025,069
Total assets		**2,195,017,021**	2,371,719,736	**420,278,625**	443,310,255
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	20	**43,891,539**	52,085,822	**15,050,875**	22,271,710
Current tax		**11,480,159**	5,047,860	**65,816**	-
Obligations under finance leases	21	**9,100,966**	7,852,686	**-**	-
Borrowings	22	**10,227,680**	553,551,761	**19,431,368**	473,279,962
Derivative financial instruments	15	**-**	554,871	**-**	-
Provisions	23	**138,562**	339,125	**-**	-
		74,838,906	619,432,125	**34,548,059**	495,551,672
Non – current liabilities					
Borrowings	22	**1,978,302,399**	1,521,345,111	**369,759,872**	-
Deferred tax	16	**79,409,963**	102,734,015	**-**	-
Obligations under finance leases	21	**90,203,148**	94,381,002	**-**	-
Deferred revenue	24	**90,271,953**	87,598,588	**-**	-
Derivative financial instruments	15	**97,922,298**	72,632,178	**-**	-
Provisions	23	**83,562**	-	**-**	-
		2,336,193,323	1,878,690,894	**369,759,872**	-
Total liabilities		**2,411,032,229**	2,498,123,019	**404,307,931**	495,551,672
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		**(229,687,208)**	(140,075,283)	**2,298,694**	(65,913,417)
Total equity		**(216,015,208)**	(126,403,283)	**15,970,694**	(52,241,417)
Total equity and liabilities		**2,195,017,021**	2,371,719,736	**420,278,625**	443,310,255

The notes on pages 24 to 52 form an integral part of these financial statements.
The financial statements were approved by the board of directors and authorised for issue on 28 February 2013. They were signed on its behalf by:

C Cullen
Director
Company registration number IR490363

B Hayden
Director

Statements of consolidated and separate cash flows
for the year ended 31 December 2012

	Note	Group Year ended 31 December 2012 £	Group Period ended 31 December 2011 £	Company Year ended 31 December 2012 £	Company Period ended 31 December 2011 £
(Loss)/profit before tax		**(51,876,753)**	(160,494,801)	**108,392,067**	(65,937,246)
Adjustments for non cash items	26	**327,885,032**	411,788,538	**56,550,533**	59,363,535
Operating cash flow before movements in working capital		**276,008,279**	251,293,737	**164,942,600**	(6,573,711)
Decrease/(increase) in finance lease receivable		**17,376**	(362,504)	**-**	-
Decrease/(increase) in trade and other receivables		**8,378,506**	(59,785,602)	**6,836**	(73,110)
Increase/(decrease) in deferred revenue		**3,631,878**	16,046,297	**-**	-
Decrease in provisions		**(117,001)**	(322,974)	**-**	-
(Decrease)/increase in trade and other payables		**(1,430,078)**	9,609,548	**833**	6,162,998
Cash generated by/(utilised in) operating activities		**286,488,960**	216,478,502	**164,950,269**	(483,823)
Taxation paid		**(13,568,604)**	(23,167,035)	**(84,553)**	-
Interest received		**1,650,620**	785,885	**-**	-
Realised gain on derivatives		**-**	9,494,297	**-**	-
Net cash generated by/(utilised in) operating activities		**274,570,976**	203,591,649	**164,865,716**	(483,823)
Cash flow from investing activities					
Acquisition of property, plant and equipment		**(17,763,357)**	(117,282,084)	**(11,509)**	(25,481)
Proceeds from disposal of property, plant and equipment		**5,940,000**	10,903,000	**-**	-
Loans recovered		**-**	-	**23,398,949**	-
Loans made		**-**	-	**-**	(23,398,949)
Acquisition of subsidiaries		**-**	(398,953,691)	**-**	(393,238,408)
Cash (utilised in)/generated by investing activities		**(11,823,357)**	(505,332,775)	**23,387,440**	(416,662,838)
Cash flow from financing activities					
Funds raised		**150,000,000**	951,350,606	**-**	500,471,671
Finance expenses paid	26	**(163,834,281)**	(138,481,261)	**(63,766,909)**	(43,252,291)
Payment of finance lease obligations		**(2,732,474)**	(1,499,317)	**-**	-
Bank loans repaid		**(205,000,000)**	(430,760,230)	**(35,750,000)**	(27,191,709)
Intercompany loan repaid		**-**	-	**(48,338,722)**	-
Shareholders loans repaid		**(35,750,000)**	-	**-**	-
Shareholder dividends paid		**(40,005,758)**	-	**(40,005,758)**	-
Proceeds on issue of shares		**-**	13,672,000	**-**	13,672,000
Cash(utilised in)/generated by financing activities		**(297,322,513)**	394,281,798	**(187,861,389)**	443,699,671
(Decrease)/increase in cash and cash equivalents		**(34,574,894)**	92,540,672	**391,767**	26,553,010
Cash and cash equivalents at the beginning of the year		**192,053,644**	-	**26,553,010**	-
Cash and cash equivalents acquired		**-**	99,512,972	**-**	-
Cash and cash equivalents at end of year/period	19	**157,478,750**	192,053,644	**26,944,777**	26,553,010

Statements of changes in equity
for the year ended 31 December 2012

Group

	Called up share capital	Share premium	Accumulated defecit	Total shareholders' equity
	£	£	£	£
Balance at 19 October 2010	-	-	-	-
Share capital issued	12,000	13,660,000	-	13,672,000
Loss for the period	-	-	(138,895,508)	(138,895,508)
Actuarial losses on defined benefit scheme after tax	-	-	(1,179,775)	(1,179,775)
Balance at 31 December 2011	**12,000**	**13,660,000**	**(140,075,283)**	**(126,403,283)**
Loss for the year	-	-	**(48,891,782)**	**(48,891,782)**
Actuarial losses on defined benefit scheme after tax	-	-	**(714,385)**	**(714,385)**
Dividends paid	-	-	**(40,005,758)**	**(40,005,758)**
Balance at 31 December 2012	**12,000**	**13,660,000**	**(229,687,208)**	**(216,015,208)**

Company

	Called up share capital	Share premium	Retained earnings	Total shareholders' equity
	£	£	£	£
Balance at 19 October 2010	-	-	-	-
Share capital issued	12,000	13,660,000	-	13,672,000
Loss for the period	-	-	(65,913,417)	(65,913,417)
Balance at 31 December 2011	**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**

Notes to the consolidated and separate financial statements
for the year ended 31 December 2012

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 2012, there were no unendorsed standards effective for the year ended 31 December 2012 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 2012 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

At 31 December 2012 a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the consolidated or separate financial statements of Eversholt Investment Limited. These include the following Standards which are relevant to the Group's financial statements.

2.2.1 IFRS 9 Financial instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 (2009 and 2010) is not expected to have an impact on the Group or Company's financial assets or liabilities.

2.2.2 IFRS 10 *Consolidated Financial statements* ('IFRS 10')

This is a new standard that replaces the consolidation requirements in *SIC 12 Consolidation – special purpose entities* (SIC 12) and *IAS 27 Consolidated and Separate Financial Statements* (IAS 27). IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investment, eliminating the risks and rewards approach used in SIC12. IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and is not expected to have a significant impact on the Group financial statements.

2 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

2.2.3 IFRS 13 Fair Value Measurement

On 12 May 2011, the IASB issued *IFRS 13 Fair Value Measurement (IFRS 13),* which establishes guidance for fair value measurement and disclosure relating to this measurement.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and is not expected to have a significant impact on the Group or separate Company financial statements.

2.2.4 IAS 16 Property, plant and equipment

As part of the Annual Improvement 2009 – 2011 Cycle, amendments were made to the recognition and classification of servicing equipment.

These amendments are effective for annual periods beginning on or after 1 July 2013 and are not expected to have a significant impact on the Group or separate Company financial statements.

2.2.5 IAS 19 Employee Benefits

On 16 June 2011, the IASB published the amended *IAS 19 Employee Benefits* (IAS 19) Statement. These amendments require recognition of changes in the net defined benefit liability /asset including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements. The amended standard introduces 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. IAS 19 is applicable on a modified retrospective basis to annual periods beginning on or after 1 January 2013.

No other standards or interpretations available for early adoption are expected to have a significant effect on the consolidated or separate results or net assets of the Company or Group when adopted.

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 2012.

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.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

2 Basis of Preparation (continued)

2.4 Going concern

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The 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 2012, 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.

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.

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 defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the scheme's actuaries using the Projected Unit Credit Method. The net charge to the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets, and is presented in operating expenses. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

The defined benefit asset 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.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

3 Summary of significant accounting policies (continued)

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 2012 £	Period ended 31 December 2011 £	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Depreciation	**146,544,697**	170,371,767	**-**	-
Maintenance cost	**59,030,186**	76,110,147	**-**	-
Write down in the value of inventories	**230,245**	267,440	**-**	-
	205,805,128	246,749,354	**-**	-

5 Finance income

	Group		Company	
	Year ended 31 December 2012 £	Period ended 31 December 2011 £	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Fixed rate preference dividend	**-**	-	**495,000**	537,041
Bank interest	**1,778,985**	844,156	**403,731**	197,743
	1,778,985	844,156	**898,731**	734,784

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

6 Finance expense

	Group		Company	
	Year ended 31 December 2012	Period ended 31 December 2011	Year ended 31 December 2012	Period ended 31 December 2011
	£	£	£	£
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	**(55,422,563)**	(65,437,290)	**(55,422,563)**	(65,437,290)
Profit participating preference share dividend	**(1,386,251)**	(679,109)	**-**	-
Interest payable on derivatives	**(6,370,474)**	(8,472,924)	**-**	-
Interest payable on bank loan	**(12,938,774)**	(15,364,482)	**-**	-
Interest expense on obligations under finance leases	**(9,072,697)**	(10,072,125)	**-**	-
Interest payable on bonds	**(69,719,712)**	(69,576,581)	**-**	-
Other finance costs	**(924,560)**	(766,322)	**(3,299)**	-
Unwinding of capitalised borrowing costs	**(5,696,753)**	(14,607,573)	**-**	-
Interest payable to Eversholt Rail (UK) Limited	**-**	-	**(1,119,379)**	(648,623)
	(161,531,784)	(184,976,406)	**(56,545,241)**	(66,085,913)

7 Administrative expense

Administrative expenses include:

	Group		Company	
	Year ended 31 December 2012	Period ended 31 December 2011	Year ended 31 December 2012	Period ended 31 December 2011
	£	£	£	£
Foreign exchange loss	**(1,976)**	(830)	**(1,613)**	(2,615)
Depreciation	**(455,443)**	(530,224)	**(5,292)**	(2,532)
Defined contribution pension costs	**(412,745)**	(395,000)	**-**	-
Fees payable to the company's auditor for the audit of the company's annual accounts	**(116,855)**	(147,364)	**(18,893)**	(21,257)
Fees payable to the company's auditor and its associates for other services				
- Other services	**(137,161)**	(2,466)	**(51,696)**	(2,466)

Except for the fees disclosed above, no other fees have been paid to the auditors.

8 Staff numbers and costs

Group

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

	Group		Company	
	Year ended 31 December 2012	Period ended 31 December 2011	Year ended 31 December 2012	Period ended 31 December 2011
	Number	Number	Number	Number
Directors	**3**	3	**3**	3
Operations	**52**	47	**2**	1
Administration	**46**	39	**4**	1
	101	89	**9**	5

8 Staff numbers and costs (continued)

The comparative period reflected commences 3 December 2010, the date on which the Group was formed.

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	Year ended 31 December 2012	**Period ended 31 December 2011**	**Year ended 31 December 2012**	**Period ended 31 December 2011**
	£	**£**	**£**	**£**
Wages and salaries	**(7,746,996)**	(11,518,319)	**(323,677)**	(223,097)
Social security costs	**(919,835)**	(1,300,872)	**(36,172)**	(9,820)
Contributions to defined contribution pension scheme	**(412,745)**	(1,100,946)	**(23,665)**	(11,538)
Income/(expenses) related to defined benefit pension scheme	**23,000**	(27,000)	**-**	-
	(9,056,576)	(13,947,137)	**(383,514)**	(244,455)

9 Directors' emoluments

	Group		Company	
	Year ended 31 December 2012	**Period ended 31 December 2011**	**Year ended 31 December 2012**	**Period ended 31 December 2011**
For services to the Company	**(169,760)**	(152,492)	**(169,760)**	(152,492)
Reimbursement of expenses	**(3,514)**	(1,861)	**(3,514)**	(1,861)
	(173,274)	(154,353)	**(173,274)**	(154,353)

The emoluments of the highest paid director, including benefits in kind were £56,587 (31 December 2011: £52,435). 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 credit/(expense)

	Group		Company	
	Year ended 31 December 2012	**Period ended 31 December 2011**	**Year ended 31 December 2012**	**Period ended 31 December 2011**
	£	**£**	**£**	**£**
Current tax				
Irish Corporation tax				
On current period profit	(100,933)	(16,057)	(100,933)	-
On prior period profit	(55,319)	-	(49,436)	-
Overseas tax				
On current year profit	(19,171,485)	(11,272,470)	-	-
On prior period profit	(673,164)	-	-	-
	(20,000,901)	(11,288,527)	(150,369)	-
Deferred tax				
Origination and reversal of temporary differences	22,985,872	32,887,820	(23,829)	23,829
Total income tax credit/(expense)	2,984,971	21,599,293	(174,198)	23,829

The Irish corporation tax rate applying to the Company and its Irish subsidiaries was 12.5% (period ended 31 December 2011 12.5%). The UK tax rate applying to the profits of subsidiaries assessable in the UK was 24.5% (period ended 31 December 2011: 26.5%).

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

10 Income tax credit/(expense) (continued)

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 2012	Period ended 31 December 2011	Year ended 31 December 2012	Period ended 31 December 2011
	£	£	£	£
Taxation at corporation tax rate	**(6,484,594)**	20,061,850	**(13,549,008)**	8,242,156
Amounts not deductible for tax purposes	**1,137,656**	(12,494,726)	**-**	(8,260,738)
Change in tax rates	**4,298,337**	6,145,282	**-**	-
Prior year adjustment	**960,204**	(495,375)	**(73,266)**	-
Group relief for nil consideration	**(1,132,119)**	-	**-**	-
Income not taxable for tax purposes	**-**	-	**-**	67,130
Adjustment in respect of current tax charge	**3,124,920**	-	**-**	-
Effects of taxing overseas profits at different rates	**55,102,573**	8,382,262	**-**	-
Value based relief	**-**	-	**-**	(24,719)
Permanent tax differences	**(54,022,006)**	-	**13,448,076**	-
	2,984,971	21,599,293	**(174,198)**	23,829

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 £231,615 (period ended 31 December 2011: £443,225) increase in total comprehensive income.

11 Property, plant and equipment

Group

	Other assets	Assets in the course of construction	Rolling stock and other railway assets	Total
	£	£	£	£
Cost				
Balance at 1 January 2011	2,052,789	82,725,169	2,100,548,375	2,185,326,333
Transfers	-	(82,25,169)	82,725,169	-
Additions	226,340	-	117,055,744	117,282,084
Diposals	(1,018)	-	(10,240,820)	(10,241,838)
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**

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

11 Property, plant and equipment (continued)

	Other assets	Assets in the course of construction	Rolling stock and other railway assets	Total
Depreciation				
Balance at 1 January 2011	-		-	-
Charge for the period	530,224	-	170,371,767	170,901,991
Disposals	(1,018)	-	(1,400,466)	(1,401,484)
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**
Net carrying value				
Carrying value at 31 December 2012	**1,416,721**	**-**	**1,989,556,012**	**1,990,972,733**
Carrying value at 31 December 2011	1,748,905	-	2,121,117,167	2,122,866,072

No interest has been capitalised during the year in property, plant and equipment (31 December 2011: £2,169,003). The capitalisation rate used is the rate of interest attaching to the Group's borrowings attributable to the construction of rolling stock.

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	
Additions	25,481
Balance at 1 January 2012	25,481
Additions	11,509
Balance at 31 December 2012	**36,990**
Depreciation	
Charge for the period	2,532
Balance at 1 January 2012	2,532
Charge for the year	5,292
Balance at 31 December 2012	**7,824**
Net carrying value	
Carrying value at 31 December 2012	**29,166**
Carrying value at 31 December 2011	22,949

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

12 Inventory

	2012	2011
	£	£
Rolling stock spares	2,021,813	2,252,058

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 2011: £248,719).

13 Finance lease receivables

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Gross investment in finance leases				
Amounts falling due:				
No later than one year	**1,708,461**	1,736,608	-	-
Later than one year and no later than five years	**6,608,370**	6,678,172	-	-
Later than five years	**9,229,540**	10,866,263	-	-
Gross investment in finance leases	**17,546,371**	19,281,043	-	-
Unearned finance income	**(5,613,535)**	(6,688,611)	-	-
Net investment in finance leases less provisions	**11,932,836**	12,592,432	-	-
Amortisation of finance lease receivables:				
Amounts falling due:				
No later than one year	**735,476**	661,532	-	-
Later than one year and no later than five years	**3,716,924**	3,379,084	-	-
Later than five years	**7,480,436**	8,551,816	-	
Present value of minimum lease receivables	**11,932,836**	12,592,432	-	-
Fair value of amounts receivable under finance leases	**11,932,836**	13,157,854	-	-
Aggregate finance lease rentals receivable in the period	**1,076,292**	1,257,505	-	-

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, (period ended 31 December 2011: 6% and 10%).

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 periods is the carrying amount. The finance lease receivables are not past due and are not impaired.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

14 Trade and other receivables

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Receivable no later than one year:				
Trade receivables	**167,742**	2,217,086	-	-
Other receivables	**6,656,423**	313,168	**66,274**	73,110
Retirement benefit asset (note 30)	-	489,000	-	-
Maintenance prepayment	**16,640,784**	21,657,663	-	-
	23,464,949	24,676,917	**66,274**	73,110
Receivable later than one year:				
Maintenance prepayment	**7,496,501**	16,962,580	-	-
	30,961,450	41,639,497	**66,274**	73,110

15 Derivative financial instruments

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Current				
Interest rates swaps - assets	**741,177**	-	-	-
Interest rates swaps - liabilities	-	(554,871)	-	-
Non-current				
Interest rates swaps - liabilities	**(97,922,298)**	(72,632,178)	-	-

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 2012, none of the swaps were designated in hedge accounting relationships (period ended 31 December 2011:nil).

The fair value of derivative financial instruments is based on market rates on 31 December 2012.

16 Deferred tax

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Balance at beginning of the year/period	**(102,417,982)**	-	**23,829**	-
Acquisition of subsidiaries	-	(135,749,027)	-	-
Income statement credit/(charge)	**22,985,873**	32,887,820	**(23,829)**	23,829
Other comprehensive income:				
Actuarial movement on retirement benefit obligations	**231,615**	443,225	-	-
Balance at end of the period	**(79,200,494)**	(102,417,982)	-	23,829

Temporary differences relate principally to accelerated capital allowances and depreciation.

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

16 Deferred tax (continued)

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

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Deferred tax asset	**209,469**	316,033	-	23,829
Deferred tax liability	**(79,409,963)**	(102,734,015)	-	-
	(79,200,494)	(102,417,982)	-	23,829

The Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the reporting date.
Since only the change in the rate to 23% had been substantively enacted at the statement of financial position date, the effect of this change only is included in these financial statements.

17 Investments in subsidiaries

	2012	2011
	£	£
Cost at 1 January and 31 December 2012	**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 2012	Ownership Percentage 2011
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

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

17 Investments in subsidiaries (continued)

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	-

*Indirect subsidiaries

18 Loans Receivable

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Loan to European Rail Finance Limited	-	-	-	50,500
Loan to European Rail Finance (GB) Limited	-	-	-	9,348,449
Loan to Eversholt Rail (UK) Limited	-	-	-	14,000,000
	-	-	-	23,398,949

These loans were unsecured, interest free, had no fixed repayment terms and were therefore technically repayable on demand.

19 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Bank accounts	**157,478,750**	192,053,644	**26,944,777**	26,553,010

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 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Trade payables	**4,236,159**	6,128,652	**2,576**	12,172
Lease rentals received in advance	**17,165,532**	15,850,098	-	-
Maintenance, acquisition and administrative accruals	**7,295,744**	7,680,106	**90,119**	74,540
Interest accrual	**15,188,104**	22,426,966	**14,958,180**	22,184,998
Retirement benefit liability	**6,000**	-	-	-
	43,891,539	52,085,822	**15,050,875**	22,271,710

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2012

21 Obligations under finance leases to third parties

	Group		Company	
	As at 31 December 2012 £	As at 31 December 2011 £	As at 31 December 2012 £	As at 31 December 2011 £
Total future minimum lease payments				
No later than one year	**17,721,472**	12,592,686	-	-
Later than one year and no later than five years	**62,043,732**	61,275,117	-	-
Later than five years	**63,902,495**	82,392,583	-	-
Gross investment in finance leases	**143,667,699**	156,260,386	-	-
Future finance costs	**(44,363,585)**	(54,026,698)	-	-
Present value of lease obligations	**99,304,114**	102,233,688	-	-
Present value of minimum lease payments				
No later than one year	**9,100,966**	7,852,686	-	-
Later than one year and no later than five years	**34,319,175**	28,798,562	-	-
Later than five years	**55,883,973**	65,582,440	-	-
	99,304,114	102,233,688	-	-

These obligations relate to the headlease 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 2012 was 9.00%, (period ended 31 December 2011: 9.07%). 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 2012 £	As at 31 December 2011 £	As at 31 December 2012 £	As at 31 December 2011 £
No later than one year				
Bank loans	-	138,000,000	-	-
Interest accrued	**13,300,857**	13,364,411	-	-
Eversholt Rail (UK) Limited	-	-	**19,431,368**	67,770,090
Eversholt Investment Group (Luxembourg) Sarl	-	405,509,872	-	405,509,872
Capitalised fees	**(3,073,177)**	(3,322,522)	-	-
	10,227,680	553,551,761	**19,431,368**	473,279,962
Payable later than one year				
Bank loans	**341,950,000**	408,950,000	-	-
Bonds	**1,250,000,000**	1,100,000,000	-	-
Other loan	**5,331,472**	5,219,608	-	-
Profit participating preference shares	**25,000,000**	25,000,000	-	-
Capitalised fees	**(13,738,945)**	(17,824,497)	-	-
Eversholt Investment Group (Luxembourg) Sarl	**369,759,872**	-	**369,759,872**	-
	1,978,302,399	1,521,345,111	**369,759,872**	-
	1,988,530,079	2,074,896,872	**389,191,240**	473,279,962

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

22 Borrowings (continued)

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 December 2016. Interest on these loans is currently charged at Libor plus 1.75% (year ended 31 December 2011: Libor plus 1.75%).

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.
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 2011: 14.06%).

23 Provisions

	Group		Company	
	As at 31 December 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Payable no later than one year	£	£	£	£
Engineering costs	**138,562**	339,125	-	-
Payable after one year				
Engineering costs	**83,562**	-	-	-
	222,124	339,125	-	-

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 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
	£	£	£	£
Balance at 1 January 2012	**339,125**	666,143	-	-
Utilised	**(27,969)**	(180,814)	-	-
Provision reversed	**(89,032)**	(146,204)	-	-
Balance at 31 December	**222,124**	339,125	-	-

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

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 2012	As at 31 December 2011	As at 31 December 2012	As at 31 December 2011
Deferred revenue	£	£	£	£
Current asset:				
Arising in respect of maintenance contracts	**698,793**	-	-	-
Non-current liability:				
Arising in respect of maintenance contracts	**(90,271,953)**	(87,598,588)	-	-
	(89,573,160)	(87,598,588)	-	-

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

25 Share capital

	Company	
	As at 31 December 2012	As at 31 December 2011
	£	£
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		Company	
	Year ended 31 December 2012	Period ended 31 December 2011	Year ended 31 December 2012	Period ended 31 December 2011
	£	£	£	£
Depreciation	**147,872,605**	171,750,474	**5,292**	2,532
Fair value adjustment on derivative financial instruments	**23,994,072**	63,692,751	-	-
Profit on disposal of property, plant and equipment	**(3,283,444)**	(2,062,646)	-	-
Adjustment for non-cash element of pension charge	**(451,000)**	(472,000)	-	-
Unwinding of capitalised finance charges	**4,634,361**	14,607,573	-	-
Capitalisation of finance charges	-	(4,855,328)	-	-
Interest on borrowings	**155,118,438**	169,127,714	**56,545,241**	59,361,003
Adjustments for non-cash items	**327,885,032**	411,788,538	**56,550,533**	59,363,535

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

26 Notes to the cash flow statement

26.2 Finance expenses paid

	Group		Company	
	Year ended 31 December 2012	**Period ended 31 December 2011**	**Year ended 31 December 2012**	**Period ended 31 December 2011**
	£	**£**	**£**	**£**
Bank loans	**(12,992,415)**	(15,346,755)	-	-
Bonds	**(69,728,000)**	(56,523,005)	-	-
Eversholt Investment Group (Luxembourg) Sarl	**(62,649,382)**	(43,252,291)	**(62,649,382)**	(43,252,291)
Profit participating preference dividends	**(1,385,755)**	(592,369)	-	-
Derivative financial instrument	**(6,403,356)**	(8,561,509)	-	-
Finance costs	**(1,363,480)**	-	-	-
Other interest	**(42,096)**	(4,855,327)	**(3,299)**	-
Interest on finance leases (365)	**(9,269,797)**	(9,350,005)	-	-
Intercompany interest paid on working capital loan	-	-	**(1,114,228)**	-
	(163,834,281)	(138,481,261)	**(63,766,909)**	(43,252,291)

Included in finance costs is £93,244 of costs which have been capitalised.

27 Capital commitments

In respect of capital expenditure:

	Group		Company	
	Year ended 31 December 2012	**Period ended 31 December 2011**	**Year ended 31 December 2012**	**Period ended 31 December 2011**
	£	**£**	**£**	**£**
Authorised and contracted	**9,285,000**	19,547,300	-	-

The capital expenditure is in respect of enhancements to existing rolling stock.

28 Dividends

For the year ended 31 December 2012 dividends of £40,005,758 were paid (31 December 2011 : nil).

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 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.

30 Retirement benefit obligations (continued)

30.1 General description of scheme (continued)

Employer contributions for the year ending 31 December 2012 are 19.1% (31 December 2011: 27.84%) of Section Pay. The Section is open to new members.

30.2 Membership data

	31 December 2012	31 December 2011
Active members		
Number	**32**	35
Annual payroll (£)	**2,153,000**	2,013,000
Average age	**49.0**	48.9
Deferred members		
Number	**49**	49
Total deferred pensions (£)	**303,000**	289,000
Average age	**49.6**	48.6
Pensioner members (including dependants)		
Number	**34**	30
Annual pension payroll (£)	**806,000**	687,000
Average age	**63.7**	63.7

30.3 Summary of assumptions

	31 December 2012 % pa	31 December 2011 % pa
Discount rate	**4.3**	4.8
Expected return on Section assets	*****NA**	**6.9
Price inflation (RPI measure)	**2.9**	3.1
Increases to deferred pensions (CPI measure)	**1.9**	2.1
Pension increases (CPI measure)	**1.9**	2.1
Salary increases *	**4.4**	4.6

* 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:

*** This assumption is no longer used in IAS 19 revised 2011

- **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 2012

30.3 Summary of assumptions (continued)

	Long-term rate of return expected on 31 December 2012	Value at 31 December 2012	Long-term rate of return expected on 31 December 2011	Value at 31 December 2011
	% pa	£	% pa	£
Equities	**NA**	**18,415,000**	7.2	26,864,000
Government bonds	**NA**	**-**	2.8	2,166,000
Non-Government bonds	**NA**	**12,287,000**	N/A	-
Property	**NA**	**-**	N/A	-
Other assets	**NA**	**315,000**	2.8	44,000
	NA	**31,017,000**	6.9	29,074,000

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

		31 December 2012	31 December 2011
Male currently age 65	Pension under £9,300 pa or pensionable pay under £35,000 pa	**20.6**	20.5
	Others	**22.8**	22.6
Male currently age 45	Pension under £9,300 pa or pensionable pay under £35,000 pa	**23.0**	22.8
	Others	**25.0**	24.9
Female currently age 65	Pension under £3,300 pa or pensionable pay under £35,000 pa	**22.5**	22.4
	Others	**24.9**	24.8
Female currently age 45	Pension under £3,300 pa or pensionable pay under £35,000 pa	**25.0**	24.9
	Others	**27.3**	27.1

30.4 Defined Benefit Asset at end of year/period

	Year ended 31 December 2012	Period ended 31 December 2011
	£	£
Detailed Benefit Obligation at end of year/period	**(31,027,000)**	(28,260,000)
Value of assets at end of year/period	**31,017,000**	29,074,000
Funded Status at end of year/period	**(10,000)**	814,000
Adjustment for the members' share of surplus	**4,000**	(325,000)
Defined Benefit Asset at end of year/period	**(6,000)**	489,000

30.5 Reconciliation of Employer share of Defined Benefit (Liability)/Asset

	Year ended 31 December 2012	Period ended 31 December 2011
	£	£
Opening Defined Benefit Asset	**489,000**	1,610,000
Employer's share of pension income/(expense)	**23,000**	(45,000)
Employer contributions	**428,000**	547,000
Total loss recognised in statement of comprehensive income	**(946,000)**	(1,623,000)
Closing Defined Benefit (Liability)/Asset	**(6,000)**	489,000

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

30 Retirement benefit obligations (continued)

30.6 Disclosed pension (income)/expense

	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Employer's share of service cost (included in administrative expense)	**351,000**	415,000
Employer's share of interest cost (included in pension finance credit)	**818,000**	982,000
Employer's share of expected return on assets (included in pension finance credit)	**(1,192,000)**	(1,352,000)
Employer's share of pension expense	**(23,000)**	45,000

30.7 Reconciliation of Employer share of return on assets

	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Expected return on Section assets	**1,192,000**	1,352,000
Gain/(loss) on Section assets	**128,000**	(1,348,000)
Actual return on Section assets	**1,320,000**	4,000

30.8 Reconciliation of Defined Benefit Obligation

	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Opening Defined Benefit Obligation	**28,260,000**	25,780,000
Service Cost	**568,000**	672,000
Interest Cost	**1,363,000**	1,630,000
Loss on Defined Benefit Obligation	**1,693,000**	296,000
Actual benefit payments	**(857,000)**	(118,000)
Closing Defined Benefit Obligation	**31,027,000**	28,260,000

30.9 Reconciliation of value of assets

	Year ended 31 December 2012 £	Period ended 31 December 2011 £
Opening value of section assets	**29,074,000**	28,460,000
Expected return on assets	**1,987,000**	2,253,000
Gain on assets/(loss)	**212,000**	(2,250,000)
Employer contributions	**428,000**	547,000
Employee contributions	**173,000**	182,000
Actual benefit payments	**(857,000)**	(118,000)
Closing value of Section asset	**31,017,000**	**29,074,000**

Tables 29.8 and 29.9 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.

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 2012

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 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	30,961,450	30,961,450	-	23,464,949	7,496,501	-
Derivative financial instruments	741,177	483,794	-	483,794	-	-
	43,635,463	48,991,615	-	25,657,204	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	(43,891,539)	(43,891,539)	-	(43,891,539)	-	-
- Current tax liabilities	(11,480,159)	(11,480,159)	-	(11,480,159)	-	-
- Obligations under finance lease	(99,304,114)	(143,667,697)	-	(17,721,470)	(62,043,732)	(63,902,495)
- Borrowings	(1,988,530,079)	(3,089,094,498)	-	(98,312,921)	(673,652,003)	(2,317,129,574)
	(2,143,205,891)	(3,288,133,893)	-	(171,406,089)	(735,695,735)	(2,381,032,069)
Total financial instruments	(2,040,013,976)	(3,185,096,187)	130,561,250	(153,172,484)	(731,655,440)	(2,430,829,513)

Group

31 December 2011	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	12,592,432	19,281,044	-	1,736,608	6,678,172	10,866,264
Trade and other receivables	41,639,497	41,639,497	-	24,676,917	16,962,580	-
	54,231,929	60,920,541	-	26,413,525	23,640,752	10,866,264
Cash and cash equivalents	192,053,644	192,053,644	132,253,644	-	-	59,800,000
Financial liabilities						
Available for sale financial instruments						
- Derivative financial instruments	(73,187,049)	12,084,654	-	1,464,610	18,529,105	(7,909,061)
Other financial liabilities – amortised cost						
- Trade and other payables	(52,085,822)	(52,085,822)	-	(52,085,822)	-	-
- Current tax liabilities	(5,047,860)	(5,047,860)	-	(5,047,860)	-	-
- Obligations under finance lease	(102,233,688)	(156,260,386)	-	(12,592,686)	(61,275,117)	(82,392,583)
- Borrowings	(2,096,043,891)	(3,127,024,619)	(405,509,872)	(229,705,569)	(777,830,573)	(1,713,978,604)
	(2,255,411,261)	(3,340,418,687)	(405,509,872)	(299,431,937)	(839,105,690)	(1,796,371,187)
Total financial instruments	(2,082,312,737)	(3,075,359,848)	(273,256,228)	(271,553,802)	(796,935,833)	(1,733,613,984)

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

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 2012						
Financial assets						
Loans and receivables						
- 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	(15,050,875)	(15,050,875)	-	(15,050,875)	-	-
- Borrowings	(389,191,240)	(404,149,420)	(19,431,368)	(14,958,180)	-	(369,759,872)
	(404,242,115)	(419,200,295)	(19,431,368)	(30,009,054)	-	(369,759,872)
Total financial instruments	(377,231,064)	(392,189,243)	(18,904,091)	(29,942,780)	26,417,500	(369,759,872)

Company

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£	£	£	£	£	£
31 December 2011						
Financial assets						
- Loans and receivables	23,398,949	23,398,949	-	23,398,949	-	-
- Trade and other receivables	73,110	73,110	-	73,110	-	-
	23,472,059	23,472,059	-	23,472,059	-	-
Cash and cash equivalents	26,553,010	26,553,010	26,553,010	-	-	-
Financial liabilities						
Non – derivative instruments – amortised cost						
- Trade and other payables	(22,271,710)	(22,271,710)	-	(22,271,710)	-	-
- Borrowings	(473,279,963)	(473,279,963)	(473,279,963)	-	-	-
	(495,551,673)	(495,551,673)	(473,279,963)	(22,271,710)	-	-
Total financial instruments	(445,526,604)	(445,526,604)	(473,279,963)	27,753,354	-	-

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 2011: £1,100,000,000) have a fair value of £1,503,237,000 (31 December 2011: £1,223,492,300) and would all fall into the level one group. There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2012.

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 2012

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	
	2012	2011	2012	2011
Fixed rate instruments				
Financial liabilities	**(1,647,998,567)**	(1,540,983,674)	**(384,718,052)**	(427,694,871)

31.5 Interest rate Sensitivity Analysis

	Group		Company	
	2012	2011	2012	2011
Variable rate instruments				
Financial assets	**12,674,013**	12,592,432	-	-
Financial liabilities	**(552,946,027)**	(731,760,901)	**(19,431,368)**	(67,770,090)
	(540,272,014)	(719,168,469)	**(19,431,368)**	(67,770,090)

The impact of a 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £160,644 on unhedged debt, this would be offset by an increase in cash deposit interest received of £891,056. A 50 basis points upwards parallel shift in the yield curve would have improved the fair value in the derivative financial instruments by £24,942,748.

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	
	2012	2011	2012	2011
Within one year	**232,700,599**	292,731,594	-	-
2-5 years	**270,705,635**	607,998,273	-	-
Over 5 years	**166,549,121**	198,071,959	-	-
	669,955,355	1,098,801,826	-	-
Aggregate operating lease rentals receivable in the year	**279,843,201**	293,039,372	-	-

Notes to the consolidated and separate financial statements (continued)
for the year ended 31 December 2012

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.

34 Contingent liabilities

There were no contingent liabilities for the Group or Company at 31 December 2012.

35 Subsequent events

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