

**Eversholt Investment Limited  
(Security group)**

**Audited, non-statutory, consolidated  
financial statements  
for the year ended 31 December 2014**

**Registered No: IR490363**

**Annual Financial Statements (Security group)**  
for the year ended 31 December 2014

<b>Contents</b>	<b>Page</b>
Directors' report	2
Statement of Directors' responsibilities	5
Independent Auditor's report	6
Consolidated income statement	7
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the annual financial statements	11

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

**Presentation of information**

These Financial Statements are non-statutory financial statements and have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents entered into by Eversholt Investment Limited, (the "Company") and its subsidiaries on 4 November 2010. The Security Group (the 'Group') consists of Eversholt Investment Limited and its subsidiaries except for Eversholt Rail (365) Limited. Users of these financial statements should particularly note the basis of consolidation set out in note 2.1.

**Principal activities**

The principal activity of the Group is to own and lease rolling stock and other rail assets in the United Kingdom ("UK").

**Business review**

During the year ended 31 December 2014, the Group has continued its business of owning and leasing rolling stock and other rail assets.

**Risk management**

The Group 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 29 of the financial statements.

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

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

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

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

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

**Performance**

The results for the Group for the year are as detailed in the Income statement on page 7.

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

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

**Future developments**

On 20 January 2015, Eversholt Investment Group entered into an agreement for the sale of its interests in Eversholt Rail Group to CKI Investments S.A.R.L. Completion of the transaction remains conditional upon receiving clearance from the European Commission under the EU Merger Regulation and it is anticipated that the transaction will close in March 2015.

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

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

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

**Dividends**

Dividends of £50,000,000 were paid in the year (2013: nil). Dividend payments are reflected in the financial statements in the year in which they are declared.

**Going concern basis**

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

**Directors**

The Directors who served during the year were as follows:

B T Hayden  
C Cullen  
M Walsh

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

**Supplier payment policy**

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

**Capital management**

The Company is not subject to externally imposed capital requirements. It is the Group's objective to maintain a strong capital base to support the development of its business.

**Disclosure of information to the auditor**

Each person who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

**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 Auditor, KPMG Chartered Accountants will continue in office.

Signed on behalf of the Board by:



**C Cullen**  
Director



**M Walsh**  
Director

Registered Office:  
Newmount House  
Mount Street Lower  
Dublin 2  
Ireland

Date: 25 February 2015

**Statement of Directors' responsibilities in respect of the Directors' report and the financial statements (Security group)**  
for the year ended 31 December 2014

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 International Financial Reporting Standards ('IFRSs') as adopted by the 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 for the year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2013. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies' Acts 1963 to 2013.

These financial statements were approved by the Board of Directors on 25 February 2015 and were signed on its behalf by:



**C Cullen**  
Director



**M Walsh**  
Director

Registered Office:  
Newmount House  
Mount Street Lower  
Dublin 2  
Ireland

**Independent Auditor's Report to the Members of Eversholt Investment Limited Non-statutory (Security group)**  
for the year ended 31 December 2014

We have audited the Non-statutory Security Group financial statements of Eversholt Investment Limited for the year ended 31 December 2014 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of cash flows, Consolidated statement of changes in equity, and the related notes. These financial statements have been prepared under the accounting policies set out therein and for the reasons set out in note 2.1.

This report is made solely to the company's Directors in accordance with the terms of our engagement letter. Our audit work has been undertaken so that we might state to the company's Directors those matters we are required to state 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 Directors for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and auditors**

The Statement of Directors' responsibilities on page 5 sets out the Directors' responsibility for preparing the Non-statutory Security Group financial statements in accordance with the accounting policies of the company.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements have been prepared in accordance with the company's accounting policies.

**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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion**

In our opinion the Non-statutory Security Group financial statements of Eversholt Investment Limited for the year ended 31 December 2014 have been properly prepared in accordance with the accounting policies and the basis of preparation set out in note 2.1 to those statements.



**Paul Dobey**

**for and on behalf of**

**KPMG**

**Chartered Accountants, Statutory Audit Firm**

1 Harbourmaster Place, IFSC

Dublin

Ireland

25 February 2015

**Consolidated income statement (Security group)**  
for the year ended 31 December 2014

		Group	
		Year ended 31 December 2014	Year ended 31 December 2013
	Note	£'000	£'000
<b>Revenue</b>			
Finance lease income		925	616
Operating lease income		269,977	268,072
Maintenance income		78,565	57,467
Other revenue		3,662	3,064
Total income		353,129	329,219
Cost of sales	4	(193,648)	(180,933)
Gross profit		159,481	148,286
Finance income	5	362	1,674
Finance expense	6	(141,778)	(154,576)
Net fair value (loss)/gain on derivatives		(48,763)	34,713
Pension finance (charge)/credit	28	(8)	11
		(30,706)	30,108
Administrative expense	7	(21,366)	(18,202)
Profit on disposal of property, plant and equipment		-	645
(Loss)/profit before tax		(52,072)	12,551
Income tax credit/(charge)	10	181	(9,018)
<b>(Loss)/profit for the year</b>		<b>(51,891)</b>	<b>3,533</b>

There were no discontinued or discontinuing operations during the year.

**Consolidated statement of comprehensive income (Security group)**  
for the year ended 31 December 2014

		Group	
		Year ended 31 December 2014	Year ended 31 December 2013
	Note	£'000	£'000
(Loss)/profit for the year		(51,891)	3,533
<b>Other comprehensive expense</b>			
Actuarial losses on defined benefit scheme	28	(2,268)	(375)
Tax in respect of actuarial losses on defined benefit scheme	15	487	78
Total comprehensive (expense)/income for the year		<b>(53,672)</b>	<b>3,236</b>

The notes on pages 11 to 38 form an integral part of these financial statements.

The financial statements were approved by Board of Directors and authorised for issue on 25 February 2015. They were signed on its behalf by:



**Chris Cullen**  
Director

Company registration number: IR 490363



**Michael Walsh**  
Director

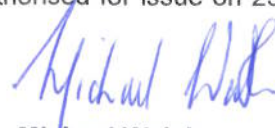
**Consolidated statement of financial position (Security group)**  
as at 31 December 2014

		<b>Group</b>	
		<b>As at</b>	<b>As at</b>
		<b>31 December</b>	<b>31 December</b>
		<b>2014</b>	<b>2013</b>
		<b>£'000</b>	<b>£'000</b>
<b>Assets</b>	<b>Note</b>		
<b>Non-current assets</b>			
Property, plant and equipment	11	1,708,362	1,818,367
Finance lease receivables	12	9,238	10,062
Trade and other receivables	13	4,793	6,671
Derivative financial instruments	14	-	3
Deferred tax	15	22,526	12,054
Investment in subsidiaries	16	2,835	2,835
		<u>1,747,754</u>	<u>1,849,992</u>
<b>Current assets</b>			
Inventory	17	1,561	1,792
Finance lease receivables	12	823	779
Trade and other receivables	13	19,869	8,879
Cash and cash equivalents	18	37,487	88,218
Deferred revenue	21	-	567
		<u>59,740</u>	<u>100,235</u>
<b>Total assets</b>		<u><b>1,807,494</b></u>	<u><b>1,950,227</b></u>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	19	33,653	27,280
Current tax liabilities		7,795	4,301
Borrowings	20	46,413	80,248
Amounts owed to Eversholt Rail (365) Limited		19,046	36,520
Deferred revenue	21	11,116	-
Provisions	22	1,195	167
		<u>119,218</u>	<u>148,516</u>
<b>Non-current liabilities</b>			
Borrowings	20	1,711,399	1,739,927
Deferred tax	15	85,677	89,434
Deferred revenue	21	89,457	115,640
Provisions	22	-	55
Derivative financial instruments	14	107,292	58,532
		<u>1,993,825</u>	<u>2,003,588</u>
<b>Total liabilities</b>		<u><b>2,113,043</b></u>	<u><b>2,152,104</b></u>
<b>Equity</b>			
Share capital	23	12	12
Share premium account		13,660	13,660
Accumulated deficit		(319,221)	(215,549)
<b>Total equity</b>		<u><b>(305,549)</b></u>	<u><b>(201,877)</b></u>
<b>Total equity and liabilities</b>		<u><b>1,807,494</b></u>	<u><b>1,950,227</b></u>

The notes on pages 11 to 38 form an integral part of these financial statements.

The financial statements were approved by Board of Directors and authorised for issue on 25 February 2015. They were signed on its behalf by:

  
**Chris Cullen**  
Director

  
**Michael Walsh**  
Director

Company registration number: IR 490363

**Consolidated statement of changes in equity (Security group)**  
for the year ended 31 December 2014

**Group**

	Called up share capital £'000	Share premium £'000	Accumulated deficit £'000	Total shareholders' equity £'000
Balance at 1 January 2013	12	13,660	(218,785)	(205,113)
Profit for the year	-	-	3,533	3,533
Actuarial losses on defined benefit scheme after tax	-	-	(297)	(297)
<b>Balance at 31 December 2013</b>	<b>12</b>	<b>13,660</b>	<b>(215,549)</b>	<b>(201,877)</b>
Loss for the year	-	-	(51,891)	(51,891)
Dividends paid	-	-	(50,000)	(50,000)
Actuarial losses on defined benefit scheme after tax	-	-	(1,781)	(1,781)
<b>Balance at 31 December 2014</b>	<b>12</b>	<b>13,660</b>	<b>(319,221)</b>	<b>(305,549)</b>

**Consolidated statement of cash flows (Security group)**  
for the year ended 31 December 2014

		<b>Group</b>	
		<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2013</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Cash flow from operating activities</b>			
(Loss)/profit before tax		<b>(52,072)</b>	12,551
Adjustments for:			
Depreciation	11	<b>126,122</b>	129,045
Write down of inventory	4	<b>230</b>	230
Fair value adjustment on derivative financial instrument		<b>48,763</b>	(34,713)
Profit on disposal of property, plant and equipment		-	(645)
Unwinding capitalised finance charges		<b>5,755</b>	13,836
Interest on borrowings		<b>135,661</b>	139,066
Adjustment for non-cash element of pension charge		<b>118</b>	59
<b>Operating cash flows before changes in working capital</b>		<b>264,577</b>	259,429
Decrease in finance lease receivable		<b>780</b>	1,092
(Increase)/decrease in trade and other receivables		<b>(9,961)</b>	14,196
(Decrease)/increase in deferred revenue		<b>(15,944)</b>	24,060
Increase in provisions		<b>973</b>	-
Increase in trade and other payables		<b>3,936</b>	2,089
<b>Net cash flow generated by operating activities</b>		<b>244,361</b>	300,866
Tax paid		<b>(10,066)</b>	(16,468)
Interest received		<b>1,211</b>	1,149
<b>Net cash generated by operating activities</b>		<b>235,506</b>	285,547
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment	11	<b>(16,117)</b>	(16,306)
Proceeds from disposal of property, plant and equipment		-	645
<b>Net cash utilised in investing activities</b>		<b>(16,117)</b>	(15,661)
<b>Cash flow from financing activities</b>			
Funds raised		<b>92,996</b>	279,000
Bank loans repaid		<b>(91,000)</b>	(504,950)
Shareholders loans repaid		<b>(82,227)</b>	(14,958)
Realised loss on derivative instruments		-	(3,939)
Finance expenses paid	25	<b>(139,419)</b>	(95,155)
Dividends paid		<b>(50,000)</b>	-
(Payment to)/received from Eversholt Rail (365) Limited		<b>(470)</b>	16,959
<b>Net cash utilised in financing activities</b>		<b>(270,120)</b>	(323,043)
Net decrease in cash and cash equivalents		<b>(50,731)</b>	(53,157)
Cash and cash equivalents at beginning of year		<b>88,218</b>	141,375
Cash and cash equivalents at end of year	18	<b>37,487</b>	88,218

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

**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 Newmount House, Mount Street Lower, Dublin 2, Ireland. The principal activities of the Group are set out on page 2.

**2 Basis of Preparation**

These financial statements are presented in £'000. In 2014, the financial statements have been converted from £ to £'000. All amounts have been rounded to the nearest thousand, unless otherwise indicated. In the opinion of the Directors, the conversion was required to become clearer to the reader of these financial statements.

**2.1 Basis of consolidation**

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

The Group's interest in Eversholt Rail (365) Limited is not consolidated but stated at cost. All other subsidiaries are consolidated from the date that the Company gains control. The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of acquisition is measured 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.

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

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

**2.2 Compliance with International Financial Reporting Standards**

The consolidated financial statements of Eversholt Investment Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. Except for the disaggregation of Eversholt Rail (365) Limited these financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU') EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2014, there were no unendorsed standards effective for the year ended 31 December 2014 affecting these consolidated 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. Accordingly, the consolidated financial statements of Eversholt Investment Limited for the year ended 31 December 2014 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU, except as noted above.

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.

## **Notes to the annual financial statements (Security group) (continued)**

for the year ended 31 December 2014

### **2 Basis of Preparation (continued)**

#### **2.3 Standards and Interpretations issued by the IASB**

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

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

#### **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 and expense from operating leases is recognised on a straight-line basis over the lease term.

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

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

**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.

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.

**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.

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

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

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.
- 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. The associated credit is recognised in profit and loss.

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

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

**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.

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:

**3.8.1 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.

**3.8.2 Cash and cash equivalents**

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

**3.8.3 Financial liabilities**

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

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the 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.

**3.8.4 Impairment of financial assets**

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

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

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

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

**3.8 Financial instruments (continued)**

**3.8.4 Impairment of financial assets (continued)**

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 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.

**3.8.6 Derivatives and hedge accounting**

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into. The gain or loss resulting from re-measurements is recognised in profit or loss immediately.

Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

**3.8.7 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.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

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

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

**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 on-going 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.

**3.11.1 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.

**3.11.2 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.

**3.11.3 Valuation of defined benefit retirement obligation**

In making their estimate of the valuation of the defined benefit retirement obligations the Directors have made a number of assumptions. These assumptions are more fully described in note 28.

**3.11.4 Maintenance**

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

**3.11.5 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 instruments 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.

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

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

**3.13 Retirement benefit obligations**

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

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

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

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

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

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

**3.14 Inventories**

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

**3.15 Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The provision is recognised as the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

**3.16 Preference shares**

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

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

**4 Cost of sales**

	Group	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Depreciation	125,549	128,559
Maintenance cost	67,869	52,144
Write down in the value of inventories	230	230
	<u>193,648</u>	<u>180,933</u>

**5 Finance income**

	Group	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Bank interest	<u>362</u>	<u>1,674</u>

**6 Finance expense**

	Group	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	(49,773)	(53,029)
Profit participating preference share dividend	(1,151)	(838)
Interest payable on derivatives	(6,013)	(3,926)
Interest payable on bank loans	(7,932)	(6,456)
Interest payable on bonds	(69,726)	(75,030)
Other finance costs	(1,428)	(1,461)
Unwinding of capitalised borrowing costs	(5,755)	(13,836)
	<u>(141,778)</u>	<u>(154,576)</u>

Borrowing costs included in the cost of qualifying assets during the year arose on the inter-company loans.

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

**7 Administrative expense**

Administrative expenses include:

	Group	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Foreign exchange loss	(11)	(1)
Depreciation – other assets	(573)	(486)
Defined contribution pension costs	(529)	(456)
Fees payable to the company's auditor for the audit of the company's annual accounts	(110)	(107)
Fees payable to the company's auditor and its associates for other services	(162)	(180)
Prepayments written off	-	(1,892)

In the prior year prepayments of £1,891,618 made to a supplier for maintenance services were written off as a result of the supplier going in to administration. No payments were written off during the year.

**8 Staff numbers and costs**

The average number of persons employed by the Group (including Directors of the Company and of its subsidiaries) during the period was as follows:

	Group	
	Year ended 31 December 2014 Number	Year ended 31 December 2013 Number
Directors	3	3
Operations	62	61
Administration	36	40
	<u>101</u>	<u>104</u>

	Group	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Wages and salaries	(9,278)	(8,661)
Social security costs	(1,153)	(1,066)
Contributions to defined contribution pension scheme	(529)	(456)
Defined benefit pension scheme service cost	(433)	(399)
	<u>(11,393)</u>	<u>(10,582)</u>

The Directors of UK subsidiaries are included in Administration.

**9 Directors' emoluments**

	Group	
	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Directors' emoluments for services to the Company	(169)	(179)
Reimbursement of expenses	(3)	(3)
	<u>(172)</u>	<u>(182)</u>

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

**9 Directors' emoluments (continued)**

The emoluments of the highest paid Director, including benefits in kind were £59,333 (2013: £59,551). None of the Directors are members of the defined benefit scheme nor do they have any share options or interests in the share capital of the Company.

**10 Income tax credit/(charge)**

	<i>Note</i>	<b>Group</b>	
		<b>Year ended 31 December 2014 £'000</b>	<b>Year ended 31 December 2013 £'000</b>
<b>Current tax</b>			
Irish Corporation tax			
- On current period profit		(58)	(57)
- On prior period profit		-	(9)
		<u>(58)</u>	<u>(66)</u>
 Overseas tax			
- On current period profit		(13,481)	(8,897)
- On prior period profit		(22)	(326)
		<u>(13,503)</u>	<u>(9,223)</u>
 <b>Deferred tax</b>			
Origination and reversal of temporary differences			
	15	13,742	271
<b>Total income tax credit/(charge)</b>		<u>181</u>	<u>(9,018)</u>

The Irish corporation tax rate applying to the Company and its Irish subsidiaries was 12.5% (2013:12.5%). The UK tax rate applying to the profits of subsidiaries assessable in the UK was 21.5% (2013: 23.25%).

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

	<b>Group</b>	
	<b>Year ended 31 December 2014 £'000</b>	<b>Year ended 31 December 2013 £'000</b>
Taxation at corporation tax rate	(6,509)	1,569
Change in tax rates	(733)	5,521
Prior year adjustment	(32)	(88)
Income not taxable for tax purposes	11,929	1,546
Effects of taxing overseas profits at different rates	(24,887)	(22,800)
Permanent tax differences	20,413	5,234
<b>Tax credit/(expense)</b>	<u>181</u>	<u>(9,018)</u>

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 £487,465 increase in total comprehensive income (2013: £78,350 increase).

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

**11 Property, plant and equipment**

	Other assets £'000	Rolling stock and other railway assets £'000	Total £'000
<b>Cost</b>			
<b>Balance at 1 January 2013</b>	<b>2,391</b>	<b>2,227,707</b>	<b>2,230,098</b>
Additions	333	15,973	16,306
Disposals	-	(74)	(74)
<b>Balance at 31 December 2013</b>	<b>2,724</b>	<b>2,243,606</b>	<b>2,246,330</b>
Additions	568	15,549	16,117
Disposals	-	-	-
<b>Balance at 31 December 2014</b>	<b>3,292</b>	<b>2,259,155</b>	<b>2,262,447</b>
<b>Depreciation</b>			
<b>Balance at 1 January 2013</b>	<b>985</b>	<b>298,007</b>	<b>298,992</b>
Charge for the year	486	128,559	129,045
Disposals	-	(74)	(74)
<b>Balance at 31 December 2013</b>	<b>1,471</b>	<b>426,492</b>	<b>427,963</b>
Charge for the period	573	125,549	126,122
Disposals	-	-	-
<b>Balance at 31 December 2014</b>	<b>2,044</b>	<b>552,041</b>	<b>554,085</b>
<b>Net carrying value</b>			
<b>Carrying value at 31 December 2014</b>	<b>1,248</b>	<b>1,707,114</b>	<b>1,708,362</b>
Carrying value at 31 December 2013	1,253	1,817,114	1,818,367

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

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.

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

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

**12 Finance lease receivables**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Gross investment in finance leases		
<b>Amounts falling due:</b>		
No later than one year	1,640	1,695
Later than one year and no later than five years	6,058	6,316
Later than five years	6,445	7,827
Gross investment in finance leases	14,143	15,838
Unearned finance income	(4,082)	(4,997)
Net investment in finance leases less provisions	10,061	10,841
Amortisation of finance lease receivables:		
<b>Amounts falling due:</b>		
No later than one year	823	779
Later than one year and no later than five years	3,775	3,658
Later than five years	5,463	6,404
Present value of minimum lease receivables	10,061	10,841
Fair value of amounts receivable under finance leases	10,061	10,841
Aggregate finance lease rentals receivable in the period	925	616

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 the 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% (2013: 6% and 10%) per annum.

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 not impaired in the current and prior period.

**13 Trade and other receivables**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Receivable no later than one year:</b>		
Trade receivables	5,373	1,065
Other receivables	-	849
Maintenance prepayment	14,496	6,965
	19,869	8,879
<b>Receivable later than one year:</b>		
Maintenance prepayment	4,793	6,671
	24,662	15,550

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

**14 Derivative financial instruments**

**Group**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Non-current assets</b>		
Interest rate swap contracts	-	3
<b>Non-current liabilities</b>		
FX forward contract	(50)	-
Interest rate swap contracts	(107,242)	(58,532)
	<u>(107,292)</u>	<u>(58,532)</u>

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

The Group has entered into a foreign exchange forward contract, which enable the Company to mitigate the risk of fluctuating EUR/GBP exchange rates. The contract is not designated in hedging accounting relationship. The fair value of foreign exchange forward contract was based on market rates on 31 December 2014.

During the year ended 31 December 2014, none of the swaps were designated in hedge accounting relationships (2013: none).

**15 Deferred tax**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Balance at beginning of the year	77,380	77,729
Income statement credit	(13,742)	(271)
Other comprehensive income: actuarial movement on retirement benefit obligations	(487)	(78)
Balance at end of the year	<u>63,151</u>	<u>77,380</u>

Temporary differences relate principally to accelerated capital allowances and depreciation.

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

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax asset	(22,526)	(12,054)
Deferred tax liability	85,677	89,434
	<u>63,151</u>	<u>77,380</u>

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

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

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

**16 Investments in subsidiary**

	<b>Group</b>	
<b>Cost</b>	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 31 December	<b>2,835</b>	<b>2,835</b>

The investment represents the investment in Eversholt Rail (365) Limited.

The subsidiary undertakings of the Group at the end of the reporting period were:

<b>Name of Undertaking</b>	<b>Class of Capital</b>	<b>Country of Incorporation</b>	<b>Type of business</b>	<b>Ownership Percentage 2014</b>	<b>Ownership Percentage 2013</b>
European Rail Finance Holdings Limited	Ordinary Shares	Ireland	Investment	100	100
European Rail Finance Limited*	Ordinary Shares	Ireland	Leasing	100	100
European Rail Finance (GB) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail Holdings (UK) Limited*	Ordinary Shares	England	Investment	100	100
Eversholt Rail (UK) Limited*	Ordinary Shares	England	Management services	100	100
Eversholt Depot Finance (UK) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (380) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Finance Holdings Limited*	Ordinary Shares	England	Investment	100	100
Eversholt Funding plc*	Ordinary Shares	England	Provision of finance to the Eversholt Rail Group	100	100
European Rail Finance (2) Limited*	Ordinary Shares	Ireland	Investment	100	100

\*Indirect subsidiaries

The results of Eversholt Rail (365) Limited are excluded from the consolidation, and as such are included as net investments in subsidiary as above.

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

**17 Inventory**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Rolling stock spares	<u>1,561</u>	<u>1,792</u>

Write down in the value of inventories recognised within cost of sales in the Consolidated Income statement is an expense amounting to £230,245 (2013: £230,245).

**18 Cash and cash equivalents**

Cash and cash equivalents are analysed as:

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Bank accounts	<u>37,487</u>	<u>88,218</u>

Within cash and cash equivalents there is a deposit of £26.4 million (2013: £27.1 million) which provides security for the Profit Participating Shares issued by one of the group undertakings. £0.5 million (2013: £0.5 million) is restricted by the terms of the agreement with the Law Debenture Trust Corporation Plc.

**19 Trade and other payables**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	7,633	6,531
Other payables	1,434	1,889
Lease rentals received in advance	9,191	9,468
Maintenance, acquisition and administrative accruals	11,862	8,360
Interest accrual	847	732
Retirement benefit liability	2,686	300
	<u>33,653</u>	<u>27,280</u>

**20 Borrowings**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>No later than one year</b>		
Bank loans	35,000	16,000
Interest accrued	13,175	13,124
Loan from Eversholt Investment Group (Luxembourg) Sarl	-	53,029
Capitalised fees	(1,762)	(1,905)
	<u>46,413</u>	<u>80,248</u>
<b>Payable later than one year</b>		
Bank loans	100,000	100,000
Bonds	1,250,000	1,250,000
Other loan	5,510	5,447
Capitalised fees	(9,673)	(10,280)
Preference shares	25,000	25,000
Loan from Eversholt Investment Group (Luxembourg) Sarl	340,562	369,760
	<u>1,711,399</u>	<u>1,739,927</u>
	<u>1,757,812</u>	<u>1,820,175</u>

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

**20 Borrowings (continued)**

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

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

The Bank loans are from a consortium of banks. The loans are fully repayable by November 2018. Interest on these loans is currently charged at LIBOR plus a margin (2013: LIBOR plus a margin).

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

None of the bonds are puttable.

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 agreement.

**Maturity of borrowings**

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

	<b>Group</b>	
	<b>As at 31 December 2014 £'000</b>	<b>As at 31 December 2013 £'000</b>
In more than one year but not more than two years	25,000	25,000
In more than two years but not more than five years	100,000	100,000
In more than five years	1,596,072	1,625,207
	<b>1,721,072</b>	<b>1,750,207</b>

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

**21 Deferred revenue**

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

	Group	
	As at 31 December 2014 £'000	As at 31 December 2013 £'000
<b>Current asset:</b>		
Arising in respect of maintenance contracts	-	567
<b>Current liability:</b>		
Arising in respect of maintenance contracts	(11,116)	-
<b>Non-current liability:</b>		
Arising in respect of maintenance contracts	(89,457)	(115,640)
	<u>(100,573)</u>	<u>(115,073)</u>

The deferred revenue arises in respect of the Group's obligations in respect of maintenance contracts in certain leases. Included in these costs is capitalised interest of £1,443,634 (2013: £1,461,477).

**22 Provisions**

	Group	
	2014 £'000	2013 £'000
<b>Payable no later than one year:</b>		
Engineering costs	420	167
Overheads	775	-
	<u>1,195</u>	<u>167</u>
<b>Payable later than one year and not later than five years:</b>		
Engineering costs	-	55
	<u>1,195</u>	<u>222</u>

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

	Group	
	2014 £'000	2013 £'000
<b>Balance at beginning of the year</b>	222	222
Additions	1,028	-
Provision reversed	(55)	-
<b>At 31 December</b>	<u>1,195</u>	<u>222</u>

**23 Share capital**

	Company	
	2014 £'000	2013 £'000
<b>Authorised, allotted, called up and fully paid</b>		
12,000 Ordinary shares of £1 each	<u>12</u>	<u>12</u>

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

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

**24 Capital commitments**

In respect of capital expenditure:

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Authorised and contracted	<b>30,089</b>	<b>14,980</b>

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

**25 Finance expenses paid**

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans	<b>(7,920)</b>	<b>(6,193)</b>
Bonds	<b>(69,707)</b>	<b>(75,193)</b>
Eversholt Investment Group (Luxembourg) Sarl	<b>(49,773)</b>	<b>-</b>
Profit participating preference dividends	<b>(929)</b>	<b>(718)</b>
Derivative financial instruments – net interest	<b>(6,101)</b>	<b>(3,821)</b>
Financing costs	<b>(4,966)</b>	<b>(9,209)</b>
Other interest	<b>(23)</b>	<b>(21)</b>
	<b>(139,419)</b>	<b>(95,155)</b>

Included in financing costs is £1,217,002 of costs which have been capitalised (2013: £7,408,113).

**26 Dividends**

For the year ended 31 December 2014 dividends of £50,000,000 were paid (2013: £nil).

## Notes to the annual financial statements (Security group) (continued)

for the year ended 31 December 2014

### 27 Fair values of financial assets and liabilities

The fair values together with the carrying amounts of the financial assets and financial liabilities are as follows:

Group	Note	Carrying amount		Fair value	
31 December 2014		£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Financial assets</b>					
Available for sale financial instruments					
- Derivative financial instruments	14	-			
Loans and receivables					
- Finance lease receivables	12	10,061			
- Trade and other receivables	13	24,662			
Cash and cash equivalents	18	37,487			
<b>Total Financial assets</b>		<u>72,210</u>			
<b>Financial liabilities</b>					
Available for sale financial instruments					
- Derivative financial instruments	14	(107,292)	-	(107,292)	-
Non-derivative instruments – amortised cost					
- Publicly traded bonds	20	(1,100,000)	(1,381,713)	-	-
- Other borrowings	20	(657,812)			
- Trade and other payables	19	(33,653)			
<b>Total Financial liabilities</b>		<u>(1,898,757)</u>			
<b>Total financial instruments</b>		<u>(1,826,547)</u>			
<b>Group</b>					
31 December 2013	Note	Carrying amount	Level 1	Fair value	Level 3
		£'000	£'000	Level 2 £'000	£'000
<b>Financial assets</b>					
Available for sale financial instruments					
- Derivative financial instruments	14	3	-	3	-
Loans and receivables					
- Finance lease receivables	12	10,841			
- Trade and other receivables	13	15,550			
Cash and cash equivalents	18	88,218			
<b>Total Financial assets</b>		<u>114,612</u>			
<b>Financial liabilities</b>					
Available for sale financial instruments					
- Derivative financial instruments	14	(58,532)	-	(58,532)	-
Non-derivative instruments – amortised cost					
- Publicly traded bonds	20	(1,100,000)	(1,427,024)	-	-
- Other borrowings	20	(720,175)			
- Trade and other payables	19	(27,280)			
<b>Total Financial liabilities</b>		<u>(1,905,987)</u>			
<b>Total financial instruments</b>		<u>(1,791,375)</u>			

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

**28 Retirement benefit obligations**

**28.1 General description of scheme**

**Final salary pension**

Eversholt Rail (UK) Limited, 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 Eversholt Rail (UK) Limited is only responsible for a share of the cost. The figures reported below therefore represent only Eversholt Rail (UK) Limited's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the year 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.

Employer contributions for the year ending 31 December 2014 are 19.1% (2013: 19.1%) of Section Pay.

The Section is open to new members.

**28.2 Membership data**

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Active members</b>		
Number	<b>24</b>	28
Number with PRP included	<b>18</b>	21
Annual payroll (£'000)	<b>1,681</b>	1,765
PRP included (£'000)	<b>72</b>	84
Average age	<b>49.2</b>	49.1
<b>Deferred members</b>		
Number	<b>52</b>	51
Total deferred pensions (£'000)	<b>364</b>	354
Average age	<b>51.4</b>	50.4
<b>Pensioner members (including dependants)</b>		
Number	<b>40</b>	36
Annual pension payroll (£'000)	<b>1,023</b>	929
Average age	<b>64.1</b>	63.7

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

**28 Retirement benefit obligations (continued)**

**28.3 Summary of assumptions**

	31 December 2014 %pa	31 December 2013 % pa
Discount rate	3.60	4.35
Price inflation (RPI measure)	3.00	3.35
Increases to deferred pensions (CPI measure)	2.00	2.35
Pension increases (CPI measure)	2.00	2.35
Salary increases *	4.00	4.85

\* plus 0.4% pa promotional salary scale.

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

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

	Long-term rate of return expected on 31 December 2014 % pa	Value at 31 December 2014 £'000	Long-term rate of return expected on 31 December 2013 % pa	Value at 31 December 2013 £'000
Growth Assets	N/A	21,317	N/A	19,363
Defensive pooled fund	N/A	13,137	N/A	12,603
Other assets	N/A	94	N/A	70
	N/A	34,548	N/A	32,036

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

		31 December 2014	31 December 2013
Male currently age 65	Pension under £10,300 pa or pensionable pay under £35,000 pa	20.9	20.7
	Others	23.3	22.9
Male currently age 45	Pension under £10,300 pa or pensionable pay under £35,000 pa	23.2	23.1
	Others	25.5	25.1
Female currently age 65	Pension under £3,700 pa or pensionable pay under £35,000	22.7	22.6
	Others	24.5	25.0
Female currently age 45	Pension under £3,700 pa or pensionable pay under £35,000	25.1	25.1
	Others	26.8	27.4

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

**28 Retirement benefit obligations (continued)**

**28.4 Defined Benefit liability at end of year**

	31 December 2014 £'000	31 December 2013 £'000
Defined Benefit Obligation at end of year		
Active members	(9,824)	(8,120)
Deferred members	(8,014)	(6,907)
Pensioner members (incl. dependants)	(21,187)	(17,509)
Total	(39,025)	(32,536)
Value of assets at end of year	34,548	32,036
Funded Status at end of year	(4,477)	(500)
Adjustment for the members' share of deficit/surplus	1,791	200
Effect of Asset Ceiling	-	-
<b>Net Defined Benefit Liability at end of year</b>	<b>(2,686)</b>	<b>(300)</b>

**28.5 Reconciliation of Net Defined Benefit Liability**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Opening Net Defined Benefit (Liability)/Asset	(300)	134
Employer's share of pension expense	(433)	(399)
Employer contributions	315	340
Total loss recognised in statement of comprehensive income	(2,268)	(375)
<b>Closing Defined Benefit Liability</b>	<b>(2,686)</b>	<b>(300)</b>

**28.6 Pension charge**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Employer's share of service cost	335	355
Employer's share of administration costs	62	55
Past Service Cost Adjustment (including curtailment)	28	-
Total employer's share of service cost	425	410
Employer's share of net interest on net defined benefit asset	8	(11)
<b>Employer's share of pension expense</b>	<b>433</b>	<b>399</b>

**28.7 Other comprehensive income**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Loss/(gain) due to liability experience	2,095	(138)
Loss due to liability assumption changes	1,265	1,100
Return on plan assets greater than discount rate	(1,092)	(231)
Change in effect of the asset ceiling	-	(356)
<b>Total loss recognised in statement of comprehensive income</b>	<b>2,268</b>	<b>375</b>

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

**28 Retirement benefit obligations (continued)**

**28.8 Reconciliation of Defined Benefit Obligation (DBO)**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Opening Defined Benefit Obligation	32,536	30,225
Service Cost	548	577
Interest Cost	1,393	1,277
Section amendment	28	-
Loss/(gain) on DBO - experience	3,453	(276)
Loss on DBO – demographic assumptions	155	-
Loss on DBO – financial assumptions	1,954	1,833
Actual benefit payments	(1,042)	(1,100)
<b>Closing Defined Benefit Obligation</b>	<b>39,025</b>	<b>32,536</b>

**28.9 Reconciliation of value of assets**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Opening value of section assets	32,036	31,017
Interest income on assets	1,379	1,318
Return on plan assets greater than discount rate	1,820	386
Employer contributions	315	340
Employee contributions	143	167
Actual benefit payments	(1,042)	(1,100)
Administration costs	(103)	(92)
<b>Closing value of Section assets</b>	<b>34,548</b>	<b>32,036</b>

Tables 28.8 and 28.9 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 Company's share of the assets and liabilities associated with the section.

**28.10 Reconciliation of effect of asset ceiling**

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Opening effect of asset ceiling	-	341
Interest on asset ceiling	-	15
Change in asset ceiling over the period	-	(356)
<b>Closing effect of asset ceiling</b>	<b>-</b>	<b>-</b>

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

**29 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, is described in this note.

**29.1 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.

**29.2 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.

**29.3 Credit risk management**

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. The Group's principal credit exposures arise from the obligations of lessees to maintain asset condition and make lease rental payments and from the ability of bank counterparties to return cash deposits placed with them.

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.

## Notes to the annual financial statements (Security group) (continued)

for the year ended 31 December 2014

### 29 Risk management (continued)

#### 29.4 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.

#### Group

	Carrying value £	Contractual cash flows £	On demand £	Due within 1 year £	Due between 1-5 years £	Due after 5 years £
<b>31 December 2014</b>						
<b>Financial assets</b>						
<b>Loans and receivables</b>						
Finance lease receivables	10,061	14,143	-	1,640	6,058	6,445
Trade and other receivables	24,662	24,662	-	19,869	4,793	-
Derivative financial instrument	-	-	-	-	-	-
Cash and cash equivalents	37,487	37,487	10,570	-	26,917	-
	<b>72,210</b>	<b>76,292</b>	<b>10,570</b>	<b>21,509</b>	<b>37,768</b>	<b>6,445</b>
<b>Financial liabilities</b>						
<b>Available for sale financial instruments</b>						
- Derivative financial instruments	(107,292)	(116,389)	-	(5,929)	(52,264)	(58,196)
<b>Other financial liabilities – amortised cost</b>						
- Trade and other payables	(33,653)	(33,653)	-	(33,653)	-	-
- Borrowings	(1,757,812)	(2,630,724)	-	(365,672)	(495,272)	(1,769,780)
	<b>(1,898,757)</b>	<b>(2,780,766)</b>	<b>-</b>	<b>(405,254)</b>	<b>(547,536)</b>	<b>(1,827,976)</b>
<b>Total financial instruments</b>	<b>(1,826,547)</b>	<b>(2,704,474)</b>	<b>10,570</b>	<b>(383,745)</b>	<b>(509,768)</b>	<b>(1,821,531)</b>
	Carrying value £'000	Contractual cash flows £'000	On demand £'000	Due within 1 year £'000	Due between 1-5 years £'000	Due after 5 years £'000
<b>31 December 2013</b>						
<b>Financial assets</b>						
<b>Loans and receivables</b>						
Finance lease receivables	10,841	15,838	-	1,695	6,316	7,827
Trade and other receivables	15,550	15,550	-	8,879	6,671	-
Derivative financial instrument	3	12	-	12	-	-
Cash and cash equivalents	88,218	88,218	61,301	-	26,917	-
	<b>114,612</b>	<b>119,618</b>	<b>61,301</b>	<b>10,586</b>	<b>39,904</b>	<b>7,827</b>
<b>Financial liabilities</b>						
<b>Available for sale financial instruments</b>						
- Derivative financial instruments	(58,532)	(72,947)	-	(6,100)	(29,575)	(37,272)
<b>Other financial liabilities – amortised cost</b>						
- Trade and other payables	(27,280)	(27,280)	-	(27,280)	-	-
- Borrowings	(1,820,175)	(2,868,821)	(36,520)	(120,456)	(418,773)	(2,293,072)
	<b>(1,905,987)</b>	<b>(2,969,048)</b>	<b>(36,520)</b>	<b>(153,836)</b>	<b>(448,348)</b>	<b>(2,330,344)</b>
<b>Total financial instruments</b>	<b>(1,791,375)</b>	<b>(2,849,430)</b>	<b>24,781</b>	<b>(143,250)</b>	<b>(408,444)</b>	<b>(2,322,517)</b>

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

**29 Risk management (continued)**

**29.4 Liquidity risk management (continued)**

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.

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).

**29.5 Market risk**

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

**29.6 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 and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with hedging strategy.

	2014 £'000	2013 £'000
<b>Fixed rate instruments</b>		
Financial liabilities	<u>(1,521,072)</u>	<u>(1,712,724)</u>
<b>Variable rate instruments</b>		
Financial assets	10,061	99,062
Financial liability	<u>(235,000)</u>	<u>(177,531)</u>
	<u>(224,939)</u>	<u>(78,469)</u>

**29.7 Interest rate sensitivity analysis**

The impact of a 50 basis points increase in GBP LIBOR would have resulted in a decrease in interest expense of £498,822 on over hedged debt and an increase in cash deposit interest received of £233,841. A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in negative fair value adjustment loss of £20,273,651 in the derivative financial instruments.

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

for the year ended 31 December 2014

**30 Operating lease arrangement**

The group as lessor:

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

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	<b>312,556</b>	153,996
2-5 years	<b>709,345</b>	162,534
Over 5 years	<b>149,191</b>	153,888
	<b>1,171,092</b>	470,418
Aggregate operating lease rentals receivable in the year	<b>317,360</b>	268,072

**31 Related-party transactions****31.1 Identity of related parties**

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

**31.2 Transactions with related parties**

Loans with Eversholt Investment Group are more fully described in note 20. Interest on these is disclosed in note 6.

Directors' emoluments are disclosed in note 9.

**32 Contingent liabilities**

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

**33 Subsequent events**

On 20 January 2015, Eversholt Investment Group entered into an agreement for the sale of their interests in Eversholt Rail Group to CKI Investments S.A.R.L. Completion of the transaction remains conditional upon receiving clearance from the European Commission under the EU Merger Regulation and it is anticipated that the transaction will close in March 2015.

Long-dated AA corporate bond yields have fallen by a further c40bps since 31 December 2014. This means that yields are, again, at record lows in both real and nominal terms. This has been accompanied by a c10bps decrease in expectations of long term inflation since 31 December 2014, so net discount rates are likely to have decreased by c30bps during the period from the balance sheet date to the date of approval of these annual financial statements. For a typical scheme with a 20 year duration, this could mean an increase of 6%-7% on the liabilities.

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