Eversholt Investment Limited
(Security group)

Audited, non-statutory, consolidated financial statements for the year ended 31 December 2012

Registered No: IR490363

Annual Financial Statements (Security group)
for the year ended 31 December 2012

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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").

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

Business review

During the year ended 31 December 2012, 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 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 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 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.

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

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 (year ended 31 December 2011: 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.

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

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 Auditor, KPMG Chartered Accountants will continue in office.

Directors report (Security group) (continued)

Statement of Directors' responsibility and approval of the annual financial statements (Security group)

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 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 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.

These financial statements were approved by the Board of Directors on 28 February 2013 and were signed on its 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 Non-statutory (Security group)

for the year ended 31 December 2012

We have audited the Non-statutory Security Group financial statements of Eversholt Investment Limited for the year ended 31 December 2012 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 Directors' 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

In our opinion the Non-statutory Security Group financial statements of Eversholt Investment Limited for the year ended 31 December 2012 have been properly prepared in accordance with the basis of preparation and the accounting policies 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

28 February 2013

Consolidated income statement (Security group)
for the year ended 31 December 2012

	Notes	Group Year ended 31 December 2012 £	Year ended 31 December 2011 £
Revenue			
Finance lease income		**1,076,292**	1,151,277
Operating lease income		**267,675,364**	257,774,459
Maintenance income		**67,227,531**	78,715,217
Other revenue		**1,389,455**	2,343,477
Total income		**337,368,642**	339,984,430
Cost of sales	4	**(197,451,631)**	(224,397,886)
Gross profit		**139,917,011**	115,586,544
Finance income	5	**1,778,985**	785,885
Finance expenses	6	**(152,508,428)**	(162,062,415)
Net fair value loss on derivatives		**(23,994,072)**	(70,307,014)
Pension finance credit	28.6	**374,000**	350,000
		(34,432,504)	(115,647,000)
Administrative expense	7	**(14,785,253)**	(12,929,075)
Disposal of property, plant and equipment		**3,283,444**	2,062,646
Loss before tax		**(45,934,313)**	(126,513,429)
Income tax credit	10	**3,902,220**	22,093,212
Loss for the year		**(42,032,093)**	(104,420,217)

There were no discontinued or discontinuing operations during the year.

Consolidated statement of comprehensive income (Security group)
for the year ended 31 December 2012

	Note	Group Year ended 31 December 2012 £	Year ended 31 December 2011 £
Loss for the year		**(42,032,093)**	(104,420,217)
Other comprehensive expense			
Actuarial losses on defined benefit scheme	28.5	**(946,000)**	(953,000)
Tax in respect of actuarial losses on defined benefit scheme		**231,615**	262,325
Total comprehensive expense for the year		**(42,746,478)**	(105,110,892)

The notes on pages 11 to 36 form an integral part of these financial statements.

The financial statements were approved by Board of Directors and authorised for issue on 28 February 2013. They were signed on its behalf by:

Chris Cullen
Director
Company registration number: IR 490363

Brian Hayden
Director

Consolidated statement of financial position (Security group)
as at 31 December 2012

		Group	
		2012	2011
Assets	*Notes*	£	£
Non-current assets			
Property, plant and equipment	11	**1,931,106,265**	2,054,646,106
Finance lease receivables	12	**11,197,360**	11,930,900
Trade and other receivables	13	**5,627,809**	8,276,887
Derivative financial instruments	14	**741,177**	-
Deferred tax asset	15	**-**	23,829
Investment in subsidiary	16	**2,834,620**	2,834,620
		1,951,507,231	2,077,712,342
Current assets			
Inventory	17	**2,021,812**	2,252,058
Finance lease receivables	12	**735,476**	661,532
Trade and other receivables	13	**23,464,949**	24,534,322
Cash and cash equivalents	18	**141,375,503**	192,053,644
Deferred revenue	21	**698,793**	-
		168,296,533	219,501,556
Total assets		**2,119,803,764**	2,297,213,898
Liabilities and equity			
Current liabilities			
Trade and other payables	19	**39,219,626**	49,597,887
Current tax liabilities		**11,480,159**	6,180,272
Borrowings	20	**10,227,679**	553,551,761
Derivative financial instruments	14	**-**	554,871
Amounts owed to Eversholt Rail (365) Limited		**19,681,836**	27,160,024
Provisions	22	**138,562**	339,125
		80,747,862	637,383,940
Non-current liabilities			
Borrowings	20	**1,978,302,399**	1,521,345,111
Deferred tax	15	**77,697,052**	100,723,207
Deferred revenue	21	**90,271,953**	87,598,588
Provisions	22	**83,562**	-
Derivative financial instruments	14	**97,922,298**	72,632,178
		2,244,277,264	1,782,299,084
Total liabilities		**2,325,025,126**	2,419,683,024
Equity			
Share capital	23	**12,000**	12,000
Share premium account		**13,660,000**	13,660,000
Accumulated deficit		**(218,893,362)**	(136,141,126)
Total equity		**(205,221,362)**	(122,469,126)
Total equity and liabilities		**2,119,803,764**	2,297,213,898

The notes on pages 11 to 36 form an integral part of these financial statements.

The financial statements were approved by Board of Directors and authorised for issue on 28 February 2013. They were signed on its behalf by:

Chris Cullen
Director
Company registration number: IR 490363

Brian Hayden
Director

Consolidated statement of changes in equity (Security group)
for the year ended 31 December 2012

Group

	Called up share capital £	Share premium £	Accumulated deficit £	Total shareholders' equity £
At 1 January 2011	**12,000**	**13,660,000**	**(31,030,234)**	**(17,358,234)**
Loss for the year	-	-	(104,420,217)	(104,420,217)
Actuarial losses on defined benefit scheme after tax	-	-	(690,675)	(690,675)
Balance at 31 December 2011	**12,000**	**13,660,000**	**(136,141,126)**	**(122,469,126)**
Loss for the year	-	-	(42,032,093)	(42,032,093)
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**	**(218,893,362)**	**(205,221,362)**

Consolidated statement of cash flows (Security group)
for the year ended 31 December 2012

	Notes	Group Year ended 31 December 2012 £	Year ended 31 December 2011 £
Loss before tax		**(45,934,313)**	(126,513,429)
Adjustments for:			
Depreciation	4,7	**138,646,642**	151,684,148
Decrease in provisions		**(117,001)**	(322,974)
Fair value adjustment on derivative financial instrument		**23,994,072**	70,307,014
Profit on disposal of property, plant and equipment		**(3,283,444)**	(2,062,646)
Unwinding capitalised finance charges		**4,634,361**	14,607,573
Capitalisation of finance charges		**-**	(4,855,328)
Decrease in finance lease receivable		**659,596**	591,067
Decrease in inventory		**230,245**	248,718
Interest on borrowings		**146,095,082**	147,299,856
Adjustment for non-cash element of pension charge		**(451,000)**	(472,000)
Operating cash flows before changes in working capital		**264,474,240**	250,511,999
Decrease/(increase) in trade and other receivables		**8,235,911**	(9,489,135)
(Decrease)/increase in deferred revenue		**(3,185,123)**	16,046,297
(Decrease)/increase in trade and other payables		**(3,542,563)**	172,640
Net cash flow generated by operating activities		**265,982,465**	257,241,801
Tax paid		**(13,568,604)**	(24,386,495)
Interest received		**1,650,620**	785,885
Realised gain on derivative instruments		**-**	8,345,297
Net Cash generated by operating activities		**254,064,481**	241,986,488
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(17,763,357)**	(104,201,153)
Proceeds from disposal of property, plant and equipment		**5,940,000**	10,903,001
Net cash utilised in investing activities		**(11,823,357)**	(93,298,152)
Cash flow from financing activities			
Funds raised		**150,000,000**	517,176,152
Bank loans repaid		**(205,000,000)**	(430,760,230)
Shareholders loans repaid		**(35,750,000)**	-
Finance expenses paid	25	**(154,564,486)**	(127,958,858)
Dividends paid		**(40,005,758)**	-
Payment to Eversholt Rail (365) Limited		**(7,599,021)**	(1,172,148)
Net cash utilised in financing activities		**(292,919,265)**	(42,715,084)
Net (decrease)/increase in cash and cash equivalents		**(50,678,141)**	105,973,252
Cash and cash equivalents at beginning of year		**192,053,644**	86,080,392
Cash and cash equivalents at end of year/period	18	**141,375,503**	192,053,644

Notes to the Annual Financial Statements (Security group)
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 Group are set out on page 2.

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

2.3 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 financial statements of Eversholt Investment Limited. These include the following Standards which are relevant to the Group's financial statements.

2 Basis of Preparation (continued)

2.3 Standards and Interpretations issued by the IASB (continued)

2.3.1 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's financial assets or liabilities.

2.3.2 IFRS 10 Consolidated Financial statements

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 an impact on the Group financial statements.

2.3.3 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 financial statements.

2.3.4 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.

2.3.5 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 financial statements.

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

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 and expense 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.

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 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 loss 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.

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

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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.

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 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

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.

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 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

3.8.7 Determination of fair value

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.

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 Summary of significant accounting policies (continued)

3.11 Use of assumptions and estimates (continued)

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.

3.12 Fair value of derivative financial instrument

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.

3.13 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.

3.14 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 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.

3.15 Inventories

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

3.16 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.

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

3 Summary of significant accounting policies (continued)

3.17 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	
	Year ended 31 December 2012	Year ended 31 December 2011
	£	£
Depreciation	**138,191,199**	151,247,060
Maintenance cost	**59,030,187**	72,902,107
Write down in the value of inventories	**230,245**	248,719
	197,451,631	224,397,886

5 Finance income

	Group	
	Year ended 31 December 2012	Year ended 31 December 2011
	£	£
Bank interest	**1,778,985**	785,885

6 Finance expense

	Group	
	Year ended 31 December 2012	Year ended 31 December 2011
	£	£
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	**(55,422,563)**	(59,361,003)
Profit participating preference share dividend	**(1,386,251)**	(645,307)
Interest payable on derivatives	**(6,370,474)**	(7,346,846)
Interest payable on bank loans	**(12,938,774)**	(13,628,057)
Interest payable on bonds	**(69,719,712)**	(66,283,397)
Other finance costs	**(924,560)**	(154,986)
Unwinding of capitalised borrowing costs	**(5,696,753)**	(14,607,573)
Interest payable to Eversholt Rail (365) Limited	**(49,341)**	(35,246)
	(152,508,428)	(162,062,415)

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 2012

7 Administrative expense
Administrative expenses include:

	Group	
	Year ended 31 December 2012	Year ended 31 December 2011
	£	£
Foreign exchange loss	**(1,976)**	(830)
Depreciation	**(455,443)**	(437,088)
Defined contribution pension costs	**(412,745)**	(294,976)
Fees payable to the company's auditor for the audit of the company's annual accounts	**(108,641)**	(139,150)
Fees payable to the company's auditor and its associates for other services		
- Other services	**(137,161)**	(2,466)

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 2012	Year ended 31 December 2011
	Number	Number
Directors	**3**	3
Operations	**52**	47
Administration	**46**	39
	101	89

	Group	
	Year ended 31 December 2012	Year ended 31 December 2011
	£	£
Wages and salaries	**7,746,996**	6,756,555
Social security costs	**919,835**	811,529
Contributions to defined contribution pension scheme	**412,745**	294,976
Expenses related to defined benefit pension scheme	**23,000**	35,000
	9,102,576	7,898,060

9 Directors' emoluments

	Group	
	Year ended 31 December 2012	Year ended 31 December 2011
	£	£
Directors' emoluments for services to the Company	**169,760**	131,578
Reimbursement of expenses	**3,514**	1,861

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 interests in the share capital of the Company.

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

10 Income tax credit/(expenses)

	Note	Group Year ended 31 December 2012 £	Group Year ended 31 December 2011 £
Current tax			
Irish Corporation tax			
- On current period profit		**(100,933)**	(16,057)
- On prior period profit		**(55,319)**	-
Overseas tax			
- On current period profit		**(19,171,485)**	(12,171,578)
- On prior period profit		**459,246**	-
		(18,868,491)	(12,187,635)
Deferred tax			
Origination and reversal of temporary differences	*15*	**22,770,711**	34,280,847
Total income tax credit/(expense)		**3,902,220**	22,093,212

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

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

	Group Year ended 31 December 2012 £	Group Year ended 31 December 2011 £
Taxation at corporation tax rate	**(7,504,882)**	15,908,917
Amounts not deductible for tax purposes	**1,137,656**	(8,148,098)
Income not taxable for tax purposes	-	6,170,488
Change in tax rates prior year adjustment	**4,317,849**	(499,879)
Group relief for nil consideration	**1,083,510**	-
Effects of taxing overseas profits at different rates	**55,102,573**	8,661,784
Prior year adjustment	**960,498**	-
Adjustment in respect of current tax charge	**3,124,920**	-
Permanent tax differences	**(54,319,904)**	-
Tax expense	**3,902,220**	22,093,212

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 (31 December 2011: £262,325) increase in total comprehensive income.

Notes to the Annual Financial Statements (Security group) (continued)

for the year ended 31 December 2012

11 Property, plant and equipment

	Other assets £	Rolling stock and other railway assets in the course of construction £	Rolling stock and other railway assets £	Total £
Cost				
Balance at 1 January 2011	**2,052,789**	**72,894,489**	**2,047,442,484**	**2,122,389,762**
Transfers	-	(72,894,489)	72,894,489	-
Acquistion of assets	226,340	-	103,974,813	104,201,153
Disposals	(1,018)	-	(10,240,820)	(10,241,838)
Balance at 31 December 2011	**2,278,111**	**-**	**2,214,070,966**	**2,216,349,077**
Additions	113,281	-	17,650,076	17,763,357
Disposals	-	-	(4,014,615)	(4,014,615)
Balance at 31 December 2012	**2,391,392**	**-**	**2,227,706,427**	**2,230,097,819**
Depreciation				
Balance at 1 January 2011	**93,136**	**-**	**11,327,171**	**11,420,307**
Charge for the year	437,088	-	151,247,060	151,684,148
Disposals	(1,018)	-	(1,400,466)	(1,401,484)
Balance at 31 December 2011	**529,206**	**-**	**161,173,765**	**161,702,971**
Charge for the period	455,443	-	138,191,199	138,646,642
Disposals	-	-	(1,358,059)	(1,358,059)
Balance at 31 December 2012	**984,649**	**-**	**298,006,905**	**298,991,554**
Net carrying value				
Carrying value at 31 December 2012	**1,406,743**	**-**	**1,929,699,522**	**1,931,106,265**
Carrying value at 31 December 2011	1,748,905	-	2,052,897,201	2,054,646,106

No interest has been capitalised during the year in property, plant and equipment (31 December 2011: £1,861,309). The capitalisation rate used is the rate of interest attaching to the Group's borrowings attributable to the construction 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.

12 Finance lease receivables

	Group	
	2012	**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	**1,076,181**	1,151,277

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% (31 December 2011: 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

	Group	
	2012	**2011**
	£	**£**
Receivable no later than one year:		
Trade receivables	**167,742**	2,074,491
Other receivables	**6,656,423**	313,168
Retirement benefit asset (note 28)	**-**	489,000
Maintenance prepayment	**16,640,784**	21,657,663
	23,464,949	24,534,322
Receivable later than one year:		
Maintenance prepayment	**5,627,809**	8,276,887
	29,092,758	32,811,209

14 Derivative financial instruments

	2012	2011
Current	£	£
Interest rate swap contracts - assets	**741,177**	-
Interest rate swap contracts - liabilities	-	(554,871)
Non-current		
Interest rate swap contracts - 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 of variable rate debt held.

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

15 Deferred tax

	Group	
	2012	2011
	£	£
Balance at beginning of the year	**100,699,378**	135,242,550
Income statement (credit)	**(22,770,711)**	(34,280,847)
Other comprehensive income: actuarial movement on retirement benefit obligations	**(231,615)**	(262,325)
Balance at end of the year	**77,697,052**	100,699,378

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:

	Group	
	2012	2011
	£	£
Deferred tax asset	-	(23,829)
Deferred tax liability	**77,697,052**	100,723,207
	77,697,052	106,699,378

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 balance sheet 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.

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

16 Investments in subsidiary

	Group 2012 £	Group 2011 £
Cost		
Balance at 31 December	**2,834,620**	2,834,260

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

The subsidiary undertakings of the Group 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
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

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 2012

17 Inventory

	Group	
	2012	2011
	£	£
Rolling stock spares	**2,021,812**	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).

18 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	Group	
	2012	2011
	£	£
Bank accounts	**141,375,503**	192,053,644

Within cash and cash equivalents there is a deposit of £26.4 million (31 December 2011 : £26.5 million) which provides security for the Profit Participating Shares issued by one of the group undertakings. £0.5 million (31 December 2011:£0.5 million) is restricted by the terms of the agreement with the Law Debenture Trust Corporation Plc.

19 Trade and other payables

	Group	
	2012	2011
	£	£
Trade payables	**1,443,705**	5,563,867
Lease rentals received in advance	**15,288,309**	13,935,162
Maintenance, acquisition and administrative accruals	**7,293,508**	7,671,892
Interest accrual	**15,188,104**	22,426,966
Retirement benefit liability	**6,000**	-
	39,219,626	49,597,887

20 Borrowings

	Group	
	2012	2011
	£	£
No later than one year		
Bank loans	-	138,000,000
Interest accrued	**13,300,856**	13,364,411
Capitalised fees	**(3,073,177)**	(3,322,522)
Loan from Eversholt Investment Group (Luxembourg) Sarl	-	405,509,872
	10,227,679	553,551,761
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
Capitalised fees	**(13,738,945)**	(17,824,497)
Preference shares	**25,000,000**	25,000,000
Loan from Eversholt Investment Group (Luxembourg) Sarl	**369,759,872**	-
	1,978,302,399	1,521,345,111
	1,988,530,078	2,074,896,872

Notes to the Annual Financial Statements (Security group) (continued)

for the year ended 31 December 2012

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 in December 2016. Interest on these loans is currently charged at Libor plus 1.75%.The bonds issued by the group are as follows:

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.

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.

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 2012 £	As at 31 December 2011 £
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)

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

22 Provisions

	Group	
	2012 £	2011 £
Payable no later than one year:		
Engineering costs	**138,562**	339,125
Payable later than one year and not later than five years:		
Engineering costs	**83,562**	-
	222,124	339,125

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

22 Provisions (continued)

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

	Group	
	2012	2011
	£	£
Balance at beginning of the year	**339,125**	662,099
Utilised	**(27,969)**	(176,770)
Provision reversed	**(89,032)**	(146,204)
At 31 December	**222,124**	339,125

23 Share capital

	Company	
	2012	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.

24 Capital commitments

In respect of capital expenditure:

	Group	
	2012	2011
	£	£
Authorised and contracted	**9,285,000**	19,547,300

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

25 Finance expenses paid

	Group	
	2012	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
Profit participating preference dividends	**1,385,755**	592,369
Derivative financial instruments – net interest	**6,403,356**	7,353,865
Financing costs	**1,363,482**	-
Other interest	**42,096**	35,245
Capitalised finance charges paid	-	4,855,328
	154,564,486	127,958,858

Included in financing costs is £93,246 of costs which have been capitalised.

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

26 Dividends

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

27 Fair value of financial assets and liabilities

Except where disclosed elsewhere, there are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2012 and 31 December 2011.

28 Retirement benefit obligations

28.1 General description of schemeclare

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 2012 are 19.1% (31 December 2011: 27.84%) of Section Pay.

The Section is open to new members.

28.2 Membership data

	31 December 2012	31 December 2011
Active members		
Number	**32**	**35**
Annual payroll	**2,153,000**	**2,013,000**
Average age	**49**	**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**

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

28 Retirement benefit obligations (continued)

28.3 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% 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:

*** 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.

	Long-term rate of return expected on 31 December 2012 % pa	Value at 31 December 2012 £	Long-term rate of return expected on 31 December 2011 % pa	Value at 31 December 2011 £
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	-
Other assets	NA	315,000	2.8	44,000
	NA	31,017,000	6.9	29,074,000

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

28 Retirement benefit obligations (continued)

28.3 Summary of assumptions (continued)

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

28.4 Defined Benefit (Liability)/Asset at end of year

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

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

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Opening Defined Benefit Asset	**489,000**	970,000
Employer's share of pension expense	**23,000**	(35,000)
Employer contributions	**428,000**	507,000
Total loss recognised in statement of comprehensive income	**(946,000)**	(953,000)
Closing Defined Benefit (Liability)/Asset	**(6,000)**	489,000

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

28 Retirement benefit obligations (continued)

28.6 Disclosed pension expense

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Employer's share of Service Cost (included in administrative expense)	**351,000**	385,000
Employer's share of Interest Cost (included in pension finance credit)	**818,000**	912,000
Employer's share of expected return on assets (included in pension finance credit)	**(1,192,000)**	(1,262,000)
Employer's share of pension (expense)/income	**(23,000)**	35,000

28.7 Reconciliation of return on assets

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Expected return on Section assets	**1,192,000**	1,262,000
Gain/(loss) on Section assets	**128,000**	(1,368,000)
Actual return on Section assets	**1,320,000**	(106,000)

28.8 Reconciliation of Defined Benefit Obligation

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Opening Defined Benefit Obligation	**28,260,000**	27,090,000
Service Cost	**568,000**	622,000
Interest Cost	**1,363,000**	1,520,000
Gain/(loss) on Defined Benefit Obligation	**1,693,000**	(844,000)
Actual benefit payments	**(857,000)**	(128,000)
Closing Defined Benefit Obligation	**31,027,000**	28,260,000

28.9 Reconciliation of value of assets

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Opening value of section assets	**29,074,000**	28,700,000
Expected return on assets	**1,987,000**	2,103,000
Gain/(loss) on assets	**212,000**	(2,280,000)
Employer contributions	**428,000**	507,000
Employee contributions	**173,000**	172,000
Actual benefit payments	**(857,000)**	(128,000)
Closing value of Section asset	**31,017,000**	29,074,000

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 these in the remaining disclosures which reflect the Group share of the assets and liabilities associated with the Section.

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

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.

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.

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

29 Risk management (continued)

29.4 Liquidity risk management (continued)

Group

	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						
Finance lease receivables	11,932,836	17,546,371	-	1,708,461	6,608,370	9,229,540
Trade and other receivables	29,092,758	31,632,528	-	26,004,719	5,627,809	-
Derivative financial instrument	741,177	741,177	-	741,177		-
	41,766,771	49,920,076	-	28,454,357	12,236,179	9,229,540
Cash and cash equivalents	141,375,503	141,375,503	114,458,003	-	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	(39,219,626)	(39,219,626)	-	(39,219,626)	-	-
- Current tax liabilities	(11,480,159)	(11,480,159)	-	(11,480,159)	-	-
- Borrowings	(1,988,530,078)	(3,108,655,501)	(19,561,003)	(98,312,921)	(673,652,003)	(2,317,129,574)
	(2,039,229,863)	(3,159,355,286)	(19,561,003)	(149,012,706)	(673,652,003)	(2,317,129,574)
Total financial instruments	(1,954,009,887)	(3,071,492,366)	94,897,000	(127,981,948)	(671,480,400)	(2,366,927,018

	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						
Finance lease receivables	12,592,432	19,281,043	-	1,736,608	6,678,172	10,866,263
Trade and other receivables	32,811,209	32,811,209	-	24,534,322	8,276,887	-
	45,403,641	52,092,252	-	26,270,930	14,955,059	10,866,263
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	(49,597,887)	(49,597,887)	-	(49,597,887)	-	-
- Current tax liabilities	(6,180,272)	(6,180,272)	-	(6,180,272)	-	-
- Borrowings	(2,096,043,891)	(3,127,024,619)	(405,509,873)	(229,705,569)	(777,830,573)	(1,713,978,604)
	(2,151,822,050)	(3,182,802,778)	(405,509,873)	(285,483,728)	(777,830,573)	(1,713,978,604)
Total financial instruments	(1,987,551,814)	(2,926,572,228)	(273,256,229)	(257,748,188)	(744,346,409)	(1,651,221,402)

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.

Notes to the Annual Financial Statements (Security group) (continued)
for the year ended 31 December 2012

29 Risk management (continued)

29.4 Liquidity risk management (continued)

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)

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.

	2012	2011
	£	£
Fixed rate instruments		
Financial liabilities	(1,647,998,567)	(1,540,983,674)
Variable rate instruments		
Financial assets	154,049,516	204,646,077
Financial liability	(453,641,913)	(629,527,213)
	(299,592,396)	(424,881,136)

29.7 Interest rate sensitivity analysis

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 led to a decrease in negative fair value adjustment (loss) of £24,942,748 in the derivative financial instruments.

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.

	Group	
	2012	2011
	£	£
Within one year	**225,642,250**	293,380,907
2-5 years	**270,705,635**	643,273,027
Over 5 years	**166,549,120**	198,071,958
	662,897,005	1,134,725,892
Aggregate operating lease rentals receivable in the year	**267,675,364**	257,774,459

Notes to the Annual Financial Statements (Security group) (continued)
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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. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Eversholt Investment Limited.

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 2012.

33 Subsequent events

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