Eurostar International Limited

Strategic report, Directors' report and financial statements

31 December 2013

Registered number: 2462001

Directors

The following are Directors of the Company as at 27 February 2014.

Executive Directors
J Cheesewright (Chief Financial Officer)
N Mercer (Commercial Director)
N Petrovic (Chief Executive Officer)

Non - Executive Directors
JM Bayley
S Boissard
B Dalibard
TJG Dilissen
D Hennequin
C Hollingsworth (Chairman)
M Jadot
H Mottram
M Russell

Company Secretary
G Williams

Registered Office
Times House
Bravingtons Walk
London
N1 9AW

Strategic report

Business Review and Principal Activities

The principal activity of the Eurostar International Limited ('the Company' or 'EIL') and its subsidiaries ('the Group' or 'Eurostar') is the operation of high speed Eurostar passenger train services between Britain and France and Belgium through the Channel Tunnel. There have not been any significant changes in the operational nature of the Group's principal activities in the period under review.

Operating performance for the year has been strong. The average train punctuality was 90.4% (2012: 92.1%) and this level of punctuality continues to be significantly better than the airline competition.

A record annual total turnover was achieved for the year to 31 December 2013 of £882.2m (2012: £829.4m) and Eurostar carried 10.1m passengers during this year (2012: 9.9m).

Operating profit before depreciation and amortisation for the year was £133.1m (2012: £116.1m) which was significantly ahead of the Group's target. Net profit for the year was £72.3m (2012: £88.0m). The consolidated statement of comprehensive income for the period is set out on page 13.

Operating cash performance was also better than the Group's target and the period end net cash balance after borrowings was £136.7m (2012: £118.7m). The overall net assets position of the Group at 31 December 2013 was £851.9m (2012: £774.9m).

Eurostar continues to expand its network of connecting routes, with additional services and destinations in the south of France during 2013, and the announcement of an Amsterdam service to commence in December 2016. Travellers are increasingly choosing the train for longer distance travel within Europe due to the 'City Centre to City Centre' nature of the Eurostar service and also for environmental reasons.

Key Performance Indicators

The Directors continue to monitor Eurostar's performance using a range of key performance indicators ('KPIs'). A selection of these key measures is shown below.

	Year ended 31 December 2013	Year ended 31 December 2012
Total turnover (£m)	**882.2**	829.4
Adjusted EBITDA (£m)	**141.7**	125.9
Net cash after borrowings (£m)	**136.7**	118.7
Travelled passenger volumes (m)	**10.1**	9.9
Punctuality (arrivals within 15 minutes of timetable)	**90.4%**	92.1%

New Rolling Stock

Construction of the new high speed e320 trainsets being purchased from Siemens Plc is well progressed, with the first set having been delivered to our maintenance depot for testing in January 2014. Delivery of this new rolling stock is expected to be completed during 2015.

These new train sets will enable Eurostar to expand its service offering beyond Paris and Brussels and the new train sets will be able to carry around 900 passengers at speeds of up to 320km/hour.

Train Refurbishment and Overhaul of Existing Fleet

The refurbishment and mid-life overhaul projects for the existing inter-capital trainsets have experienced some operational delays around the refurbishment. However, the programme continues to progress, with the first trainset expected back in service by the end of 2014.

Strategic report *(continued)*

East Coast franchise

In January 2014, it was announced that Keolis/Eurostar East Coast Limited, a joint venture between EIL and Keolis (UK) Limited, had been shortlisted by the Department for Transport for the InterCity East Coast rail franchise along with two other bidders. The response to the Invitation to Tender is due for submission in June 2014, with the successful bidder expected to commence service in February 2015.

Principal risks and uncertainties

The Directors consider that the following areas represent the principal risks and uncertainties for the Eurostar business:

- Economic: Pressures on disposable income for leisure travellers in the current economic climate; and travel restrictions for business travellers, could both impact on Eurostar's ability to increase revenue.
- Operational: There are risks of operational disruption caused by external factors whether as a result of infrastructure difficulties on the line, catastrophic events or bad weather, all of which would impact on the Group's performance. The Board considers that satisfactory mitigating controls within Eurostar's responsibility are in place insofar as possible and safety-related matters are considered regularly at Board and Safety Management Group meetings.
- Regulatory: The Group operates in several jurisdictions and as such, is susceptible to changes in laws or regulations which may impact on the Eurostar operation. This is considered regularly at Board level.
- Commercial: From 1 January 2010, EU open-access legislation came into force which enables new train operators to apply for train pathways and tunnel access on the Group's core routes. This potential competition to the Group presents significant risk to the financial performance of the business in the coming years.
- Financial: The business is not unduly exposed to exchange rate fluctuations and has taken steps to mitigate potential risks from both exchange rate and interest rate volatility arising from the financing arrangements for new rolling stock.

By order of the board

C Hollingsworth
Chairman

27 February 2014

Directors' report

The Directors present their report and financial statements of Eurostar International Limited (the 'Company' or 'EIL') and its subsidiaries (the 'Group' or 'Eurostar') for the year ended 31 December 2013, prepared under International Financial Reporting Standards.

Dividends

On 27 February 2014, the Directors proposed a final dividend amounting to £18.6m (2012: £16.3m).

Environment

Eurostar has an Environmental Management System, ISO 14001 certified for all UK operations. We also have a well established environment and sustainability programme known as 'Tread Lightly'. Progress since Tread Lightly was launched in 2007 has been excellent. In line with our original targets for 2013, negligible waste is now sent to landfill and we recycle around 80% of waste from our UK sites. The majority of disposable items used on board are made from biodegradable materials or are fully recyclable and our on-board food is sourced from the country of departure, wherever possible. All tea, coffee and sugar used on-board is certified as organic, Fair-trade or Rainforest Alliance. During 2012, Eurostar became the first transport operator to join the Sustainable Restaurant Association in which we achieved a sustainability rating of one star which continued throughout 2013.

Eurostar launched the 'Eurostar Ashden Award for Sustainable Travel' in 2011 and in 2013 we made awards to Sustrans in the UK and De Lijn in Belgium. The award scheme has proved to be extremely successful and our partnership with Ashden will continue in 2014, recognising and rewarding organisations in the UK, France and Belgium who are demonstrating innovation and leadership in sustainable travel. During 2013, we also commenced an initiative to carbon footprint all of our business emissions. In order to validate the emissions measurement and reductions we have achieved Carbon Emissions Measurement and Reduction (CEMAR's) certification which utilises ISO 14064 methodology.

Employees

Eurostar staff are very important to the business. The Group is a non-discriminatory employer operating an Equal Opportunities Policy, committed to the employment and promotion of all staff on the basis of merit, without regard to age, race, colour, sex, marital status or disability.

Disability

In considering applications for employment from people with disabilities, Eurostar seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the job for which he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to persons with disabilities.

Communication

The Group is committed to effective employee communication which is maintained through an intranet site and regular briefing sessions. Formal communication takes place through employees' representatives and recognised trade unions, or directly by letter to employees.

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

Eurostar uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors that affect the Group's performance and prospects.

Directors' report *(continued)*

Financial Instruments

The Group's and Company's exposure to, and treatment of, financial instruments is disclosed in note 21 of the accounts.

During the year, bank loans of £22.5m (2012: nil) were drawn in relation to the funding of the new rolling stock (see note 17 for further details). The interest rate risk on this facility is hedged.

The Group has limited exposure to foreign exchange risk.

Payment of creditors

It is the Group's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions and to abide by those terms based on the timely submission of satisfactory invoices. The Group normally settles trade creditors no later than the last business day of the month following the month in which the invoice is received. For the Group, trade creditors outstanding at the year end represented 9.0 days' purchases (2012: 13.0 days).

Directors and their interests

The Directors who served during the year were as follows:

Executive Directors

J Cheesewright	Chief Financial Officer
N Mercer	Commercial Director
N Petrovic	Chief Executive Officer

Non-executive Directors

JM Bayley	
S Boissard	
RH Brown	Resigned 30 June 2013
B Dalibard	
M Descheemaecker	Resigned 1 December 2013
TJG Dilissen	
D Hennequin	
C Hollingsworth	Appointed chairman on 1 July 2013
M Jadot	Appointed 1 December 2013
H Mottram	Appointed 27 February 2014
M Russell	

Alternate Directors[1]

M Jadot
J-Y Leclerq
A de Brauwer

No Director had, at any time during the year, any interest in the shares of any Group company.

[1] Mr Jadot acted as an alternate director for SNCB during the course of 2013. Upon his appointment as non-executive director, Mr de Brauwer was appointed as SNCB alternate director. Mr Leclerq acted as an alternate director for SNCF during the course of 2013.

Directors' report *(continued)*

Directors' statement as to disclosure of information to the auditors

The Directors who are members of the Board at the time of approving the Directors' report and business review are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

— To the best of each Director's knowledge and belief there is no information relevant to the preparation of the auditors' report of which the Company's auditors are unaware; and
— Each Director has taken all the steps a Director might reasonably be expected to have taken to make him or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

Directors' and Officers' liability insurance

The Company has purchased insurance against Directors' and Officers' liability as permitted by the Companies Act 2006 for the benefit of the Directors and Officers of the Company and its subsidiaries.

Shares and shareholders

The number of £1 ordinary shares issued and fully paid as at 31 December 2013 was 5,000 (2012: 5,000). The number of £1 preference shares issued and fully paid as at 31 December 2013 was 1 (2012: 1). The shareholdings are as follows:

SNCF Voyages Developpement SAS	2,750 ordinary shares
London & Continental Railways Limited ('LCR')	2,000 ordinary shares, 1 preference share
Société Nationale des Chemins de fer Belges ('SNCB')	250 ordinary shares

Statement of Directors' responsibilities in relation to the Strategic report, Directors' report and financial statements

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

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

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

Directors' report *(continued)*

Going concern

The Group's business activities and performance are set out in the Strategic report. The financial position of the Group can be seen in the financial statements on pages 13-18, and further information is provided in notes 1-27 of the financial statements.

In accordance with the guidance issued in October 2009 by the Financial Reporting Council, "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", a cash flow analysis has been completed in preparing the detailed 2014 Budget cash projections and 5 year Business Plan (2014-2018) which have been reviewed and approved by the Board. Following these reviews, the Directors confirm that, after having made appropriate enquiries, they have reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in the preparation of the Accounts. This approach was endorsed by the Audit Committee at its meeting held on 26 February 2014.

Auditors

Pursuant to section 487 of the Companies Act 2006 the auditor will be deemed to be reappointed and Mazars LLP will therefore continue in office. KPMG Audit Plc has notified the Company that it is not seeking reappointment due to a planned transfer of its business to its parent entity, KPMG LLP. In accordance with Section 485 of the Companies Act, resolutions for the appointment of KPMG LLP as auditor of the Company, and to authorise the Directors to determine its remuneration, are to be proposed at the forthcoming Annual General Meeting.

Post Balance Sheet Events

There were no post balance sheet events in the period to date.

Approved by the Board and signed on its behalf by

C Hollingsworth
Chairman

27 February 2014

Corporate Governance

The Company is committed to high standards of corporate governance and this is referred to in the Shareholders' Agreement approved by the Board on 31 August 2010 (the 'Shareholders' Agreement'). The main corporate governance principles applied by the Company are as set out below.

The Board

The Board provides leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations are understood and met.

In accordance with best practice, the Board conducts a collective review of its continuing effectiveness on an annual basis. The Chairman conducts an annual review of the Non-executive Directors and the Chief Executive Officer. The Chairman's own performance is subject to the review of the Board and shareholders.

Safety matters are considered by the Board at each Board meeting if requested and the Head of Safety is available to attend any Board meeting if requested. Safety matters are a key priority for the Board.

All Directors are involved in, and responsible for, the development of the Company's strategy. The Non-executive Directors review the performance of the Company with the Executive Directors on a regular basis. The Board delegates certain of its functions to committees consisting of Non-executive Directors, as detailed within this report. The Board meets at least four times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the Company. Broadly, the Board is involved in the approval of major strategic and financial decisions, including investment decisions above certain financial limits, approval of business plans and annual budgets, and the entering into of significant operating contracts.

The Board is led by the Chairman and the executive management of the Company is led by the Chief Executive Officer. The Chairman, in consultation with the Chief Executive Officer, is responsible for setting the Board agenda and ensuring that it works effectively. Working with the Secretary, the Chief Executive Officer ensures that Board members receive accurate, timely and clear information. Of the eleven members serving at the year end, three were Executive Directors, five were shareholder-nominated Directors and three were Independent Non-executive Directors (including the Chairman). All Non-executive Directors are drawn from a diverse range of business and other backgrounds, bringing a broad spectrum of views and experiences to Board deliberations. This diversity of background and experience is identified by the Board members as one of the strengths of the Board. There was no Senior Independent Director during the year.

The Non-executive Directors scrutinise the performance of the management in order to be satisfied as to the integrity and strength of financial information, controls and risk management. They have a prime role in appointing, removing and succession planning of senior management and, through the Remuneration Committee, they are responsible for determining appropriate levels of remuneration for the Executive Directors.

All Directors receive regular information about the Company so that they can play as full a part as possible in Board meetings. Unless an emergency meeting is called on short notice, papers for Board and Committee meetings are distributed a week prior to the relevant meeting. All Board members have access to the Secretary for any further information they require. If any of the Non-executive Directors have any concerns with the running of the Company, they would first discuss these concerns with one of the Executive Directors, the Secretary or the Chairman. If their concerns cannot be resolved in this way, then they are recorded in the Board minutes.

Independent professional advice and training is available to Directors in appropriate circumstances, at the Company's expense. New Directors are appointed to the Board on the recommendation of the Nominations Committee.

Directors are entitled to be indemnified out of the assets of EIL against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions pursuant to the provisions of the Companies Act 2006. Such indemnity provisions have been in place during the financial year but have not been utilised by the Directors.

Corporate Governance *(continued)*

The Board *(continued)*

The appointment and removal of the Secretary is a matter for the Board as a whole.

Rules about the appointment and replacement of Directors are set out in the Shareholders' Agreement. The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association.

Board meetings

The numbers of Board and Committee meetings attended by Directors during the year was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
M Bayley	5	n/a	2	1
S Boissard	4	n/a	n/a	n/a
A de Brauwer	0 (of 0)	0 (of 0)	0 (of 0)	0 (of 0)
R Brown	2 (of 2)	2 (of 2)	1 (of 1)	1
J Cheesewright	6	n/a	n/a	n/a
B Dalibard	5	-	2	1
M Descheemaecker	2 (of 5)	n/a	1 (of 1)	0 (of 1)
T Dilissen	5	n/a	2	n/a
D Hennequin	6	2	2	n/a
C Hollingsworth[2]	6	2 (of 2)	2	n/a
M Jadot[3]	4	n/a	1 (of 1)	0 (of 0)
J-Y Leclerq[4]	1	3	n/a	n/a
N Mercer	6	n/a	n/a	n/a
N Petrovic	6	n/a	n/a	n/a
M Russell	6	3	n/a	n/a
Total meetings in year	**6**	**3**	**2**	**1**

Board Committees

The Board has three standing Committees: Audit, Nominations and Remuneration. The Audit and Remuneration Committees meet regularly under terms of reference set by the Shareholders' Agreement. The Nominations Committee meets as required. From time to time, there are further sub-Committees of the Board set up, to review a particular project or investment. Every Committee has authority to take external advice as required.

[2] Mrs Hollingsworth ceased to attend Audit Committee upon being appointed Chairman.

[3] Mr Jadot attended three board meetings as an alternate director and one as a full director.

[4] Mr Leclerq attended one board meeting as an alternate director. He also attended three audit committee meetings as an alternate director.

Corporate Governance *(continued)*

Board Committees *(continued)*

Audit Committee

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action.

The Audit Committee comprises Non-executive Directors of the Company. At least one member of the Committee has recent and relevant financial experience. It has agreed formal terms of reference which have been provided to the shareholders. It meets not less than twice annually. The Committee monitors the integrity of the financial statements of the Company, reviews the internal financial controls and the

internal control and risk management systems. It monitors and reviews the effectiveness of the internal audit function and provides a forum for reporting by the Company's external and internal auditors. The Committee meets with each of the external and internal auditors at least once a year without the Executive Directors present. The Audit Committee was chaired by M. Russell during the year.

KPMG Audit Plc and Mazars LLP were appointed joint auditors on 31 August 2010.

Nominations Committee

The Nominations Committee was chaired during the year by R Brown until 30 June 2013, and thereafter by C Hollingsworth. A Nominations Committee meeting was convened on 30 May 2013 and upon its recommendation C Hollingsworth was appointed as Chairman, succeeding R Brown on 1 July 2013. M Jadot was appointed by simple written notice, as per Article 16.3 of the Articles of Association. A Nominations Committee meeting was convened on 27 February 2014 and upon its recommendation H Mottram was appointed as Non-executive Director.

Remuneration Committee

The Remuneration Committee includes some shareholder appointees as Non-executive Directors of the Company. The Committee was chaired during the year by C Hollingsworth until 30 June 2013, and thereafter by D Hennequin. It has delegated responsibility for recommending the remuneration of all Executive Directors including pension rights and any compensation payments. It recommends and monitors the level and structure of remuneration for members of the Eurostar Management Group.

Internal control framework and risk management

The Directors are responsible for maintaining and reviewing the effectiveness of the Company's system of internal control including financial controls. This is designed to provide reasonable assurance regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information used within the business. These controls are designed to manage, rather than eliminate, the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss. The Company has in place internal control systems in relation to the Company's financial reporting process and for the preparation of consolidated accounts.

During this financial year, there has been a review of the risk register for the Eurostar business at the Eurostar Management Group, Board and Audit Committee. The controls in place to mitigate risks are tested by the Internal Auditors, currently Grant Thornton, to ensure their robustness. This provides assurance over key business processes and commercial and financial risks facing the Company.

A clear organisational structure exists, detailing lines of financial authority and control responsibilities. The performance management system establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements.

Corporate Governance (continued)

Internal control framework and risk management *(continued)*

The business agenda is determined by the strategy, setting out the agreed targets for financial performance and service offering. Each year the Board approves the strategy, which is supported by a detailed business plan for the five years ahead. Progress against the business plan is regularly monitored.

A comprehensive management accounting system is in place providing management with financial and operational performance measurement indicators. Detailed management accounts are prepared monthly to cover each major area of the business. Variances from budget and prior year are analysed, explained and acted on in a timely manner. As well as regular Board discussions, fortnightly meetings are held by the Eurostar Management Group to review performance of specific projects as required. Effective corporate governance remains key to the business. The Company continues to review its internal control framework to ensure it maintains a strong and effective internal control environment.

Directors' Remuneration

The remuneration of the Executive Directors is designed to retain and attract people of the right calibre, to align their interests with those of the Company, and to incentivise them to perform at the highest level. The provisions of Schedule D to the UK Corporate Governance Code (2010) have been considered and applied in developing the remuneration of the Executive Directors. The levels of remuneration for the Non-executive Directors reflect the time commitment and responsibilities of the role.

N Mercer has been released by the Board to serve as a Non-executive Director for the King's Cross Business Partnership Limited. Mr. Mercer receives no remuneration for this post. N Mercer and N Petrovic are members of the Company defined benefit pension scheme.

	Year to 31 December 2013	Year to 31 December 2012
	£000	£000
Total Director Remuneration	1,972.0	1,978.6
Total Pension Contributions	39.5	41.5
Total Director Emoluments	**2,011.5**	**2,020.1**
Highest paid Director in Period	*673.4*	*650.4*
Accrued annual pension benefit of highest paid Director	*23.7*	*21.4*

Independent Auditors' Report to the Members of Eurostar International Limited

We have audited the financial statements of Eurostar International Limited for the year ended 31 December 2013 set out on pages 13 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2013, and of the group's profit for the year ended 31 December 2013;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jonathan Downer (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor, Chartered Accountants

15 Canada Square
London E14 5GL
27 February 2014

Robert Neate (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Statutory Auditor, Chartered Accountants

St Katharine's Way
London E1W 1DD
27 February 2014

Consolidated Statement of Comprehensive Income for the year ended 31 December 2013

	Note	**Year ended 31 December 2013**	Year ended 31 December 2012 (restated)
		£m	£m
Revenue	*5*	**882.2**	829.4
Infrastructure costs	*6*	**(380.1)**	(360.5)
Other direct costs		**(57.3)**	(51.7)
Other operating expenses		**(311.7)**	(301.1)
Operating profit before depreciation, amortisation and impairment		**133.1**	116.1
Depreciation and amortisation		**(79.9)**	(63.1)
Impairment		**0.8**	(1.0)
Operating profit	*6,7*	**54.0**	52.0
Finance income	*8*	**4.0**	5.4
Finance costs	*8*	**(1.7)**	(1.2)
Profit before tax		**56.3**	56.2
Taxation	*9*	**16.0**	31.8
Net profit		**72.3**	88.0
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Net effective portion of changes in fair value of cash flow hedges		**30.6**	(22.9)
Deferred tax movement on effective portion of changes in fair value of cash flow hedges		**(8.6)**	4.2
Items that will not be reclassified to profit or loss			
Remeasurement gains/losses	*19*	**(1.1)**	(12.2)
Deferred tax movement on pension liability		**0.1**	2.8
Total comprehensive income		**93.3**	59.9

Consolidated Statement of Financial Position at 31 December 2013

	Note	2013	2012 (restated)	As at 1 Jan 2012 (restated)
		£m	£m	£m
Non-current assets				
Property, plant and equipment	*10*	**612.3**	609.9	646.2
Intangible assets	*11*	**94.1**	86.0	79.8
Trade and other receivables	*15*	**29.5**	32.7	40.5
Deferred tax assets	*13*	**96.7**	88.1	48.2
		832.6	816.7	814.7
Current assets				
Inventories	*14*	**7.5**	7.3	7.3
Trade and other receivables	*15*	**125.9**	114.5	135.4
Cash and cash equivalents	*16*	**231.8**	191.3	120.4
		365.2	313.1	263.1
Total assets		**1,197.8**	1,129.8	1,077.8
Current liabilities				
Other interest-bearing loans and borrowings	*17*	**(6.8)**	(6.4)	(9.6)
Trade and other payables	*18*	**(161.3)**	(157.9)	(181.3)
		(168.1)	(164.3)	(190.9)
Non-current liabilities				
Other interest-bearing loans and borrowings	*17*	**(106.7)**	(91.7)	(103.1)
Derivative financial instruments	*21*	**(45.5)**	(76.1)	(53.2)
Defined benefit pension deficit	*19*	**(25.6)**	(22.8)	(9.4)
		(177.8)	(190.6)	(165.7)
Total liabilities		**(345.9)**	(354.9)	(356.6)
Net assets		**851.9**	774.9	721.2
Shareholders' funds				
Share capital	*20*	-	-	-
Share premium		**750.0**	750.0	750.0
Retained earnings		**138.5**	83.5	11.1
Hedge reserve		**(36.6)**	(58.6)	(39.9)
		851.9	774.9	721.2

These financial statements were approved and authorised for issue by the Board of Directors on 27 February 2014 and were signed on its behalf by:

N Petrovic
Chief Executive Officer

Company Statement of Financial Position at 31 December 2013

	Note	2013	2012 (restated)	As at 1 Jan 2012 (restated)
		£m	£m	£m
Non-current assets				
Property, plant and equipment	*10*	**612.3**	609.9	617.5
Intangible assets	*11*	**94.1**	86.0	79.8
Trade and other receivables	*15*	**29.5**	32.7	40.5
Deferred tax assets	*13*	**96.7**	88.1	48.2
Investments	*12*	**0.1**	9.3	13.2
		832.7	826.0	799.2
Current assets				
Inventories	*14*	**7.5**	7.3	7.3
Trade and other receivables	*15*	**125.7**	113.4	149.3
Cash and cash equivalents	*16*	**230.0**	190.5	120.2
		363.2	311.2	276.8
Total assets		**1,195.9**	1,137.2	1,076.0
Current liabilities				
Other interest-bearing loans and borrowings	*17*	**(6.8)**	(6.4)	(9.6)
Trade and other payables	*18*	**(161.4)**	(169.6)	(184.5)
		(168.2)	(176.0)	(194.1)
Non-current liabilities				
Other interest-bearing loans and borrowings	*17*	**(106.7)**	(91.7)	(103.1)
Derivative financial instruments	*21*	**(45.5)**	(76.1)	(53.2)
Defined benefit pension deficit	*19*	**(25.6)**	(22.8)	(9.4)
		(177.8)	(190.6)	(165.7)
Total liabilities		**(346.0)**	(366.4)	(359.8)
Net assets		**849.9**	770.6	716.2
Shareholders' funds				
Share capital	*20*	**-**	-	-
Share premium		**750.0**	750.0	750.0
Retained earnings		**136.5**	79.2	6.1
Hedge reserve		**(36.6)**	(58.6)	(39.9)
		849.9	770.6	716.2

These financial statements were approved and authorised for issue by the Board of Directors on 27 February 2014 and were signed on its behalf by:

N Petrovic
Chief Executive Officer

Statement of changes in Equity

Group

	Share capital	Share premium	Retained Earnings (restated)	Hedge reserve	Total Shareholders' funds (restated)
	£m	£m	£m	£m	£m
Balance at 1 January 2012 (as previously reported)	-	750.0	29.2	(39.9)	739.3
Effect of changes in accounting policies	-	-	(18.1)	-	(18.1)
Balance at 1 January 2012 (restated)	-	**750.0**	**11.1**	**(39.9)**	**721.2**
Transactions with owners, recorded directly in shareholders' funds					
Distributions to shareholders	-	-	(6.2)	-	(6.2)
Total distributions to owners	-	-	(6.2)	-	(6.2)
Comprehensive income					
Net profit for the year	-	-	88.0	-	88.0
Net effective portion of changes in fair value of cash flow hedges	-	-	-	(22.9)	(22.9)
Deferred tax movement on effective portion of changes in fair value of cash flow hedges	-	-	-	4.2	4.2
Remeasurement gains/losses	-	-	(12.2)	-	(12.2)
Deferred tax movement on pension liability	-	-	2.8	-	2.8
Total comprehensive income for the year	-	-	78.6	(18.7)	59.9
Balance at 31 December 2012	-	**750.0**	**83.5**	**(58.6)**	**774.9**

	Share capital	Share premium	Retained Earnings	Hedge reserve	Total Shareholders' funds
	£m	£m	£m	£m	£m
Balance at 1 January 2013 (as previously reported)	-	750.0	113.9	(58.6)	805.3
Effect of changes in accounting policies	-	-	(30.4)	-	(30.4)
Balance at 1 January 2013 (restated)	-	**750.0**	**83.5**	**(58.6)**	**774.9**
Transactions with owners, recorded directly in shareholders' funds					
Distributions to shareholders	-	-	(16.3)	-	(16.3)
Total distributions to owners	-	-	(16.3)	-	(16.3)
Comprehensive income					
Net profit for the year	-	-	72.3	-	72.3
Net effective portion of changes in fair value of cash flow hedges	-	-	-	30.6	30.6
Deferred tax movement on effective portion of changes in fair value of cash flow hedges	-	-	-	(8.6)	(8.6)
Remeasurement gains/losses	-	-	(1.1)	-	(1.1)
Deferred tax movement on pension liability	-	-	0.1	-	0.1
Total comprehensive income for the year	-	-	71.3	22.0	93.3
Balance at 31 December 2013	-	**750.0**	**138.5**	**(36.6)**	**851.9**

Share capital of £5,000 is included in the above tables.

Statement of changes in Equity

Company

	Share capital £m	Share premium £m	Retained Earnings (restated) £m	Hedge reserve £m	Total Shareholders' funds £m
Balance at 1 January 2012 (as previously reported)	-	750.0	24.2	(39.9)	734.3
Effect of changes in accounting policies	-	-	(18.1)	-	(18.1)
Balance at 1 January 2012 (restated)	**-**	**750.0**	**6.1**	**(39.9)**	**716.2**
Transactions with owners, recorded directly in shareholders' funds					
Disributions to shareholders	-	-	(6.2)	-	(6.2)
Total distributions to owners	-	-	(6.2)	-	(6.2)
Comprehensive income					
Net profit for the year	-	-	88.7	-	88.7
Effective portion of changes in fair value of cash flow hedges	-	-	-	(22.9)	(22.9)
Deferred tax movement on effective portion of changes in fair value of cash flow hedges	-	-	-	4.2	4.2
Increase in pension liability	-	-	(12.2)	-	(12.2)
Deferred tax movement on pension liability	-	-	2.8	-	2.8
Total comprehensive income for the year	-	-	79.3	(18.7)	60.6
Balance at 31 December 2012	**-**	**750.0**	**79.2**	**(58.6)**	**770.6**

	Share capital £m	Share premium £m	Retained Earnings £m	Hedge reserve £m	Total Shareholders' funds £m
Balance at 1 January 2013 (as previously reported)	-	750.0	109.6	(58.6)	801.0
Effect of changes in accounting policies		-	(30.4)	-	(30.4)
Balance at 1 January 2013 (restated)	**-**	**750.0**	**79.2**	**(58.6)**	**770.6**
Transactions with owners, recorded directly in shareholders' funds					
Distributions to shareholders	-	-	(16.3)	-	(16.3)
Total distributions to owners	-	-	(16.3)	-	(16.3)
Comprehensive income					
Net profit for the year	-	-	74.6	-	74.6
Effective portion of changes in fair value of cash flow hedges	-	-	-	30.6	30.6
Deferred tax movement on effective portion of changes in fair value of cash flow hedges	-	-	-	(8.6)	(8.6)
Increase in pension liability	-	-	(1.1)	-	(1.1)
Deferred tax movement on pension liability	-	-	0.1	-	0.1
Total comprehensive income for the year	-	-	73.6	22.0	95.6
Balance at 31 December 2013	**-**	**750.0**	**136.5**	**(36.6)**	**849.9**

Share capital of £5,000 is included in the above tables.

Cash Flow Statements
for the year ended 31 December 2013

	Note	Group 2013 £m	Group 2012 (restated) £m	Company 2013 £m	Company 2012 (restated) £m
Cash flows from operating activities					
Profit for the year		**72.3**	88.0	**74.6**	88.7
Adjustments for:					
Depreciation, amortisation and impairment	10, 11	**79.1**	64.1	**88.4**	66.3
Loss on disposal of Property, Plant and Equipment		-	1.4	-	1.4
Consumable stock scrappage/impairment		-	0.3	-	0.3
Foreign exchange losses/(gains)		**0.1**	(0.5)	**0.1**	(0.5)
Finance income		**(4.0)**	(5.4)	**(4.0)**	(6.8)
Finance expense		**1.7**	1.2	**1.6**	1.2
Taxation		**(16.0)**	(31.8)	**(16.1)**	(32.3)
Dividend from subsidiary		-	-	**(11.7)**	(3.9)
		133.2	117.3	**132.9**	114.4
(Increase)/decrease in trade and other receivables		**(8.3)**	29.0	**(9.2)**	32.7
Increase in inventories		**(0.2)**	-	**(0.2)**	-
Increase/(decrease) in trade and other payables		**4.0**	(20.3)	**3.9**	(22.1)
		(4.5)	8.7	**(5.5)**	10.6
Interest paid		**(9.2)**	(8.2)	**(9.2)**	(8.2)
Interest received		**4.2**	5.2	**4.2**	5.2
Tax paid		**(1.1)**	(1.3)	**(0.8)**	(0.9)
Net cash from operating activities		**122.6**	121.7	**121.6**	121.1
Cash flows from investing activities					
Acquisition of property, plant and equipment	10	**(72.7)**	(24.1)	**(72.7)**	(24.1)
Acquisition of intangibles	11	**(11.9)**	(8.3)	**(11.9)**	(8.3)
Net cash from investing activities		**(84.6)**	(32.4)	**(84.6)**	(32.4)
Cash flows from financing activities					
Payment of dividend to shareholders		**(16.3)**	(6.2)	**(16.3)**	(6.2)
Proceeds from borrowings		**22.3**	-	**22.3**	-
Payment of financing fees		**(1.8)**	(2.4)	**(1.8)**	(2.4)
Payment of finance lease liabilities		**(1.3)**	(9.3)	**(1.3)**	(9.3)
Net cash from financing activities		**2.9**	(17.9)	**2.9**	(17.9)
Net increase in cash and cash equivalents		**40.9**	71.4	**39.9**	70.8
Cash and cash equivalents at the beginning of the year		**191.3**	120.4	**190.5**	120.2
Effect of exchange rate fluctuations on cash held		**(0.4)**	(0.5)	**(0.4)**	(0.5)
Cash and cash equivalents at 31 December 2013	16	**231.8**	191.3	**230.0**	190.5

Notes

Eurostar International Limited ('EIL') is a company incorporated under the Companies Act 2006 and domiciled in the UK. The Company's registered office is Times House, Bravingtons Walk, London N1 9AW. The principal activity of the Company is the operation of high speed Eurostar passenger train services between Britain, France and Belgium through the Channel Tunnel.

1 Basis of Preparation

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'), over which it exercises exclusive control, directly or indirectly. The parent company financial statements present information about the Company as a separate entity and not about its group.

The financial statements of the companies included in the scope of consolidation are drawn up to 31 December 2013. The list of subsidiaries is presented in note 12.

These financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'). The Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

The financial statements are prepared on the historical cost basis.

As explained more fully in the Director's Report on page 7, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the date of this report. Consequently, these financial statements are prepared on the going concern basis.

The Company's net profit for the year was £74.6m (2012: £88.7m)

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2013, along with the comparative information presented in these financial statements for the year ended 31 December 2012.

New and amended standards adopted by the Group

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the group until 1 January 2014, however the group has decided to early adopt the amendment as of 1 January 2013.

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities', IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates and Joint Ventures':

These standards are not mandatory for the Group until 1 January 2014; however the Group has decided to early adopt them as of 1 January 2013. A detailed assessment of the impact of these Standards has been performed, with the conclusion that there is no impact on these consolidated financial statements. Specifically, IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The assessment of control across all Group entities remains unchanged.

Notes *(continued)*

1 Basis of Preparation *(continued)*

IAS 19 'Employee Benefits' revised June 2011

The changes on the Group's accounting policies have been as follows:

- to immediately recognise all past service costs;
- the abolition of the 'corridor approach' for defined benefit scheme pension accounting, which previously smoothed year on year fluctuations in the scheme surplus/deficit; and
- to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying a discount rate to the net defined benefit liability or asset.

The effect on the consolidated balance sheet and income statement for the period ending 31 December 2012 is set out below.

Restatement of statement of comprehensive income for the year

	As previously reported Year ended 31 December 2012	Adjustments Year ended 31 December 2012	**Restated Year ended 31 December 2012**
	£m	£m	**£m**
Other operating expenses	(300.8)	(0.3)	**(301.1)**
Financing income	15.6	(10.2)	**5.4**
Finance costs	(8.7)	7.5	**(1.2)**
Profit before tax	59.2	(3.0)	**56.2**
Net Profit	91.0	(3.0)	**88.0**
Other comprehensive income:			
Movement in pension liability	-	(12.2)	**(12.2)**
Deferred tax movement on pension (asset) / liability	(0.1)	2.9	**2.8**
Total Comprehensive income	72.2	(12.3)	**59.9**

Of the £(0.3m) adjustment to Other operating expenses, £(0.5m) is due to the recognition of the share of administration costs and £0.2m due to a decrease in the share of service cost.

The £(10.2m) adjustment to Financing income, and £7.5m adjustment to Finance costs are due to the replacement of the share of expected return on plan assets and interest cost with a net interest amount (£0.4m) that is calculated by applying a discount rate to the net defined benefit liability or asset.

Notes *(continued)*

1 Basis of Preparation *(continued)*

Restatement of statement of financial position at 1 January 2012

	As previously reported 1 January 2012 £m	Adjustments 1 January 2012 £m	**Restated 1 January 2012 £m**
Trade and other receivables – non-current asset	40.4	0.1	**40.5**
Trade and other receivables – current asset	150.3	(14.9)	**135.4**
Deferred tax asset	45.8	2.4	**48.2**
Deferred tax liability	(3.7)	3.7	-
Net assets	739.3	(18.1)	**721.2**
Retained earnings	29.2	(18.1)	**11.1**

Restatement of statement of financial position at 31 December 2012

	As previously reported 31 December 2012 £m	Adjustments 31 December 2012 £m	**Restated 31 December 2012 £m**
Trade and other receivables - current assets	130.9	(16.4)	**114.5**
Deferred tax asset	82.9	5.2	**88.1**
Trade and other payables	(157.7)	(0.2)	**(157.9)**
Deferred tax liability	(3.8)	3.8	-
Defined benefit pension deficit	-	(22.8)	(22.8)
Net assets	805.3	(30.4)	**774.9**
Retained earnings	113.9	(30.4)	**83.5**

Of the combined £(16.4m) adjustment to trade and other receivables and £(22.8m) adjustment to defined benefit pension deficit £(43.4m) is due to the removal of the share of unrecognised net actuarial loss (corridor method), and £4.2m is due to the 60% share of a £7m reduction in brought forward section liabilities at 1 Jan 2012.

Net cash from operating activities has been restated within the Cash Flow Statement for 2012 to reflect the adjustments above.

Notes *(continued)*

1 Basis of Preparation *(continued)*

The Company Statements of Financial Position and Cash Flow Statement have been restated to reflect the same adjustments as detailed for the Consolidated figures.

Reverse acquisition accounting
On 31 August 2010 the company issued 2,750 shares to SNCF and FRL and 250 shares to SNCB in exchange for their respective trade and assets of their Eurostar businesses, which were previously business units within divisions of those entities. The effect of this share issue was to give SNCF a 55% interest in the Company, SNCB a 5% interest in the Company and to reduce LCR's interest in the Company to 40%. At the same time, SNCF, LCR and SNCB entered into a shareholders' agreement which, in the opinion of the Directors, gives SNCF control of EIL.

Accounting for business combinations requires identification of the acquirer, which is the entity that gains control of the business as a result of the combination. As SNCF controls EIL, this business combination was accounted for as an acquisition of the former UK and SNCB Eurostar businesses by SNCF, in both EIL's group and individual accounts (a reverse acquisition).

Functional and presentation currency
These consolidated and company financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest hundred thousand, unless otherwise stated.

2 Significant Accounting Estimates and Judgements

Judgements and estimates made by the Directors, in the application of the accounting policies, that have significant effect on the financial statements are as follows:

Repairable and Consumable Stock and Stock Obsolescence
The Directors are required to exercise significant judgement in determining provisions necessary to reduce both repairable and consumable stock to its net realisable value where there is evidence that the stock is obsolete or in surplus of the required level by the business. Where repairable stock is in need of repair a separate provision is made within creditors.

Useful Economic Life of Assets, Depreciation and Residual Value
In December 2010 the Group signed a contract for the purchase of 10 new trainsets which, given current fleet usage, will replace 14 of the existing inter-capital sets. In anticipation of the expected delivery of the new trainsets in 2015, management has had to make assumptions about the remaining useful economic life and residual values of the existing inter-capital sets and associated repairable spares.

No Shows
The deferred income recognised in relation to 'No Shows' is calculated as the value of non-refundable tickets that are not travelled on.

Deferred Tax Asset
Due to the current economic climate and the anticipated future arrival of competition, it is difficult to ascertain the probable use of losses with any certainty beyond a limited time frame. Therefore the deferred tax asset recognised has been limited to those losses which are expected to be utilised in the next 3 years.

Eurostar Frequent Traveller ('EFT') provision
The provision for future costs relating to the EFT scheme, recognised as deferred income, is based upon historical trends in redemption of points and the notional cost of the reward given.

Notes *(continued)*

3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

3.1 Business Combinations

Pursuant to the purchase method, the identifiable assets and liabilities of the acquired company that meet IFRS recognition criteria are recognised at their fair value at the acquisition date, except for assets classified as held for sale, which are measured at fair value less costs to sell.

Only identifiable liabilities meeting the recognition criteria of a liability or contingent liability in the acquired company are recognised at the acquisition date for the purpose of allocating the cost of the business combination.

The difference between the purchase cost and the Group's interest in net assets acquired, at fair value, is recognised as goodwill. Any negative goodwill is released to the Statement of Comprehensive Income. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Adjustments to the fair value of assets and liabilities acquired as part of a business combination initially recognised based on provisional values (due to ongoing external valuation procedures or outstanding additional analyses), are recognised as retrospective adjustments to goodwill if they arise in the 12 months following the acquisition date. After this period, any adjustments are recognised directly in profit or loss unless they represent corrections of an error.

3.2 Translation of Foreign Currency Transactions

Foreign currency-denominated transactions are translated into the functional currency at the exchange rate prevailing at the transaction date.

Monetary items in the balance sheet are retranslated at the closing exchange rate at each balance sheet date, and the resulting translation differences are recorded in profit or loss or as a separate component of Shareholders' funds if they relate to hedging transactions qualifying as net investment or cash flow hedges under IFRS.

3.3 Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to pounds sterling at exchange rates at the reporting date. The income and expenses of foreign operations are translated to pounds sterling at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 31 August 2010, the Group's date of transition to IFRSs, such differences have been recognised in the translation reserve.

3.4 Intangible Assets

Intangible assets primarily comprise the Eurostar brand, website, licences and software. They are recorded at historical cost or, where necessary, at fair value on the date of acquisition if such assets are acquired in connection with a business combination.

Where an intangible asset has a finite life (e.g. software), it is amortised on a straight-line basis over its period of use, being 4 years for software.

Where an intangible asset has an indefinite life (e.g. the Eurostar brand), it is not amortised but is subject to impairment tests at least once a year. Depreciation on assets under construction commences only when the asset is brought into use, at which point it is transferred to one of the above asset classes.

Notes *(continued)*

3 Accounting policies *(continued)*

3.5 Property, Plant and Equipment

The property, plant and equipment of the Group includes assets owned outright and assets purchased under finance lease agreements.

Property, plant and equipment owned outright are recorded at purchase cost. Property, plant and equipment acquired as part of a business combination are recorded at their fair value on entry into the consolidation scope.

Maintenance and repair expenses are recognised as follows:

- current maintenance expenses borne during the useful life of equipment (repair work on faulty spare parts and replacement of unusable and missing parts) are recorded as operating expenses;
- expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated over the shorter of the period to the next major overhaul and the remaining useful life of the asset.

Property, plant and equipment are depreciated over the following periods using the straight line basis:

Rolling Stock	
Structure	30 years
Overhaul	15 years
Interior	7 – 15 years
Freehold buildings	34 – 40 years
Leasehold improvements	Shorter of useful life or remaining lease term
Plant & Machinery	4 years
Repairable spare parts	End of life of the related rolling stock

Depreciation on assets under construction commences only when the asset is brought into use, at which point it is transferred to one of the above asset classes.

Accelerated depreciation is recorded where a reduction in the useful life or residual value arises.

3.6 Impairment of Intangible Assets, Property, Plant and Equipment

The Group assesses whether there is an indication that an asset has been significantly impaired at each balance sheet date. Where there is such an indication, an impairment test is performed.

Indefinite-life intangible assets are subject to an impairment test each year and whenever there is an indication of loss in value.

Property, plant and equipment and intangible assets with finite lives are subject to impairment when events or circumstances during the period (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators, etc.), indicate that a loss in value may have occurred and that the recoverable amount may be less than the net carrying amount.

Impairment tests consist of comparing the net carrying amount of an asset with its recoverable amount, equal to the higher of the fair value less costs to sell and the value in use.

The value in use corresponds to the value of the future economic benefits expected from the asset's use or removal. It is assessed based on discounted future cash flows determined according to economic assumptions and projected operating conditions adopted by EIL management:

- the cash flows are determined in business plans, drawn up for periods of 5 years and validated by the Board;
- beyond this timeframe, the flows are extrapolated by applying a perpetual growth rate that is close to the long-term inflation rate expected by the Group, subject to the expected useful life of the assets tested or the indefinite life for indefinite-life intangible assets;

Notes *(continued)*

3 Accounting policies *(continued)*

3.6 Impairment of Intangible Assets, Property, Plant and Equipment (continued)

- flows are discounted at a rate appropriate to the activity sector; and
- impairment losses recorded on goodwill are not reversed.

3.7 Lease Transactions

Leased assets are recorded as purchases financed by loan when the contract terms and conditions correspond to finance lease arrangements. Finance lease agreements are contracts whereby the lessor transfers to the lessee the right to use an asset for a given period in exchange for payment and the lessor transfers all benefits and risks inherent to ownership of the asset. The appraisal criteria applied to these agreements are based on the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the estimated economic life of the leased asset;
- the present value of the minimum lease payment under the agreement is close to the fair value of the leased asset;
- the leased assets are of such a specific nature that only the lessee can use them without significant modification.
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

The assets concerned are recorded in assets at the lower of the discounted present value of the minimum lease payments and fair value and depreciated over the same period as equivalent assets owned outright.

Lease agreements not having the characteristics of finance leases are recorded as operating leases and only the lease instalments are recorded in profit or loss.

Lease payments that are made in advance are recorded as prepayments. Where such payments cover a period greater than 12 months the future value is discounted to the present value using an appropriate rate.

3.8 Inventories

Inventories consist of consumables.

Inventories are valued at the lower of cost price and net realisable value. Cost price is calculated using the weighted average cost method.

Inventories are written-down based on the turnover, nature, age and useful life of items.

3.9 Financial Assets

Financial assets are classified in current assets if they mature in less than 12 months. If financial assets mature in more than 12 months, they are presented in non-current assets.

Notes *(continued)*

3 Accounting policies *(continued)*

3.10 Cash and Cash Equivalents

Cash and cash equivalents consist of immediately available liquid assets (cash) and short-term investments, easily converted into a known amount of cash with an initial maturity of less than or equal to three months and which are exposed to a negligible risk of change in value.

3.11 Trade and Other Receivables

Receivables are recorded at nominal value on issue, except for receivables with a maturity of more than one year, which are discounted to present value where the impact of discounting is material.

Impairment is recognised when there is a potential risk of non-recovery. This impairment is determined based on an individual appraisal of non-recovery risk using historical data.

3.12 Financial Liabilities

These instruments are included in non-current liabilities, except for liabilities maturing in less than 12 months at the balance sheet date, which are recorded in current liabilities.

Borrowings and other financial liabilities are initially measured at fair value less transaction costs and subsequently at amortised cost determined using the effective interest rate.

The fair value of financial liabilities is determined using measurement techniques such as the discounted cash flow method.

3.13 Borrowing Costs

General and specific 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, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.14 Income Taxes

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

3.15 Provisions

Provisions are recorded when, at the balance sheet date, the Group has a present obligation to a third party as a result of a past event and the settlement of this obligation will require an outflow of company resources.

Notes *(continued)*

3 Accounting policies *(continued)*

3.15 Provisions *(continued)*

This obligation may be legal, regulatory or contractual and may result from Group practice or external commitments that create valid expectations in third parties that the Group will assume certain responsibilities.

The estimated amount of the provision reflects the outflow of resources that is likely to be necessary to settle the Group's obligation. If a reliable estimate of this amount cannot be made, a provision is not recorded and disclosure is provided in the notes to the financial statements.

A contingent liability is a possible obligation that arises from past events whose existence will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Group, or a probable obligation where it is not probable that an outflow of resources will be required. Except for contingent liabilities recognised as part of a business combination, contingent liabilities are not recorded. Disclosure is provided in the notes to the financial statements.

Provisions are discounted where the impact of discounting is material.

3.16 Employee Benefits

The Group participates in the Eurostar Section of the Railways Pension Scheme, a defined benefit scheme, which provides benefits to eligible Group employees.

The liability recognised in the balance sheet in respect of the scheme is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.. The defined benefit obligation is determined by independent actuaries according to the projected unit credit actuarial method, which stipulates that each period of service gives rise to an additional unit of benefit and measures each unit separately to determine the final obligation. These calculations include assumptions concerning the discount rate, mortality, employee turnover and expected future salary levels. Given that the pension scheme is a 60:40 shared cost scheme with employees, the Group recognises 60% of the scheme surplus or deficit.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs and net interest costs are recognised immediately in the income statement.

3.17 Revenue Recognition

Revenue from train services is recognised in the statement of comprehensive income on the date when the passenger travels.

Other revenue is recognised at the time the service is provided or the goods are sold.

Revenue recognised in the systems on the issue of a passenger ticket is adjusted at the period-end for tickets issued but not used, which are recorded in deferred income. These "no show" estimates are calculated as the value of non-refundable tickets that are not travelled on.

The fair value of customer loyalty points issued with the sale of tickets is separated from revenue and recorded in deferred income until the points are redeemed.

The Group provides for customer compensation for service delay or cancellation, which in all cases meets or exceeds the levels set out under the Passenger Rights Regulations.

Notes *(continued)*

3 Accounting policies *(continued)*

3.18 Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

3.19 Finance Costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

3.20 Exceptional Items

Items are classed as exceptional where they are material in amount, not expected to recur, and separate disclosure is required to enhance understanding of the results for the year.

3.21 Investments in Subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment..

3.22 Derivative Financial Instruments, including Hedge Accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in Shareholders' funds. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item.

Notes *(continued)*

3 Accounting policies *(continued)*

3.22 Derivative Financial Instruments, including Hedge Accounting *(continued)*

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in Shareholders' funds remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other non-trading derivatives
When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

4 Adopted IFRS not yet applied

The following new standards, amendments and interpretations, issued by the International Accounting Standards Board ('IASB') or the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee or IFRIC), are effective for periods beginning after 31 December 2013 and have not been applied in preparing these consolidated financial statements

Standard	**Adopted by EU**
Changes that apply from 1 January 2014	
IAS 32 Financial Instruments: Presentation	✓
Changes that apply at a later date	
IFRS 9 Financial instruments	×

The Directors have not determined the impact these changes will have on the Group and Company financial statements.

Notes *(continued)*

5 Revenue

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Train services	**845.9**	796.3
Other revenue	**36.3**	33.1
Total revenue	**882.2**	829.4

6 Expenses and auditors' remuneration

Included in the Consolidated Statement of Comprehensive Income are the following:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Infrastructure costs:		
Eurotunnel	**220.1**	206.5
UK	**67.8**	71.8
France	**67.1**	60.7
Belgium	**5.3**	4.9
Other	**19.8**	16.6
	380.1	360.5

Auditors' remuneration:

	Year ended 31 December 2013 £000	Year ended 31 December 2012 £000
KPMG Audit Plc		
- audit of these financial statements	**135**	137
- additional fees for the audit of prior period financial statements	**-**	58
- audit of financial statements of subsidiaries pursuant to legislation	**-**	-
- tax compliance	**-**	3
- other	**34**	31
	169	229
Mazars LLP		
- audit of these financial statements	**135**	138
- additional fees for the audit of prior period financial statements	**-**	67
- other	**24**	25
	159	230

Amounts paid to the company's auditors and their associates in respect of services to the company, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Notes *(continued)*

7 Staff numbers and costs

The average staff numbers (including Executive Directors) in the year were as follows:

	2013	2012
Operations and Customer Services	**1,199**	1,219
Commercial and Head Office	**425**	440
Total	**1,624**	1,659

The aggregate payroll costs were as follows:

	2013 **£m**	2012 £m (restated)
Wages and salaries	**79.3**	78.9
Social security costs	**7.2**	7.2
Expenses related to defined benefit plans	**7.3**	6.5
	93.8	92.6

Directors' remuneration included within staff costs is set out on page 11.

Regarding the restatement of 2012, see Note 1.

8 Finance income and expense

Recognised in profit or loss

	Year ended 31 December 2013 **£m**	Year ended 31 December 2012 (restated) £m
Finance income		
Net foreign exchange gain	**-**	0.5
Other finance income	**4.0**	4.9
Total finance income	**4.0**	5.4
Finance cost		
Net foreign exchange loss	**0.1**	-
Interest on defined benefit pension plan obligation	**0.9**	0.4
Other finance cost	**0.7**	0.8
Total finance expense	**1.7**	1.2

Regarding the restatement of 2012, see Note 1.

Notes *(continued)*

9 Taxation

Recognised in the Consolidated Statement of Comprehensive Income

(a) Tax on profit on ordinary activities

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£m	£m
Current tax expense:		
Foreign tax	**0.8**	0.8
Adjustments in respect of prior periods (foreign tax)	**0.3**	0.3
Current tax charge	**1.1**	1.1
Deferred tax:		
Recognition of tax losses	**(22.2)**	(35.5)
Adjustments in respect of rate change	**5.1**	2.6
Deferred tax credit	**(17.1)**	(32.9)
Tax credit for the year	**(16.0)**	(31.8)

(b) Reconciliation of the total tax charge

The tax charge for the year on the profit on ordinary activities is less (2012: less) than the notional tax charge on those profits calculated at the UK corporation tax rate of 23.25% (2012: 24.5%). The differences are explained below:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£m	£m
Profit on ordinary activities before taxation	**56.3**	56.2
Tax at the UK corporation tax rate of 23.25% (2012: 24.5%)	**13.1**	13.9
Non-deductible expenses	**0.1**	16.4
Temporary differences for which no deferred tax asset was recognised	**(13.0)**	(29.8)
Other permanent differences	**1.0**	0.3
Losses for which a deferred tax asset was not previously recognised	**(22.2)**	(35.5)
Adjustments in respect of rate change	**5.2**	2.6
Adjustments in respect of prior periods	**(0.2)**	0.3
Total tax credit	**(16.0)**	(31.8)

c) Factors affecting future tax charge

A resolution was passed by Parliament on 29 March 2012 to reduce the corporation tax rate to 23% (previously 24%) from 1 April 2013, therefore a rate of 23.25% has been reflected in these accounts in calculating the current tax. On 2 July 2013 Parliament substantively enacted a corporation tax rate of 21% to apply from 1 April 2014 and of 20% to apply from 1 April 2015. Deferred tax has been provided at the rate at which it is expected the relevant timing differences will reverse.

Regarding the restatement of 2012, see Note 1.

Notes *(continued)*

10 Property, plant and equipment – Group

	Rolling stock £m	Repairable spares £m	Plant and equipment £m	Land and buildings £m	Assets under construction £m	Total £m
Cost						
Balance at 1 January 2012	658.4	58.7	6.8	14.2	172.7	910.8
Additions	5.9	3.0	3.8	0.2	16.6	29.5
Impairment	-	(1.0)	-	-	-	(1.0)
Disposals	-	(4.1)	-	(0.1)	-	(4.2)
Balance at 31 December 2012	664.3	56.6	10.6	14.3	189.3	935.1
Additions	6.4	2.5	1.7	8.9	58.2	77.7
Impairment	-	0.8	-	-	-	0.8
Disposals	-	(1.3)	-	-	-	(1.3)
Transfers	-	-	(2.9)	2.9	-	-
Balance at 31 December 2013	670.7	58.6	9.4	26.1	247.5	1,012.3
Depreciation						
Balance at 1 January 2012	254.0	6.2	3.0	1.4	-	264.6
Depreciation charge for the year	53.1	4.9	2.1	1.1	-	61.2
Disposals	-	(0.6)	-	-	-	(0.6)
Balance at 31 December 2012	307.1	10.5	5.1	2.5	-	325.2
Depreciation charge for the year	64.0	8.1	1.5	1.5	-	75.1
Disposals	-	(0.3)	-	-	-	(0.3)
Balance at 31 December 2013	371.1	18.3	6.6	4.0	-	400.0
Net book value						
At 31 December 2013	**299.6**	**40.3**	**2.8**	**22.1**	**247.5**	**612.3**
At 31 December 2012	357.2	46.1	5.5	11.8	189.3	609.9

Leased rolling stock

At 31 December 2013 the net book value of leased rolling stock was £94.6m (2012: £103.3m). The lease obligations are secured against leased equipment (see note 17).

Capitalisation of borrowing costs

Included within assets under construction are payments made to Siemens Plc in relation to the purchase of new trainsets. Borrowing costs associated with this transaction, totalling £9.3m as at 31 December 2013 (2012: £5.2m) have also been capitalised at an internal interest rate of 7.16%.

Changes in estimates

An impairment review was performed as at 31 December 2013 and the depreciation rate for the existing fleet was reassessed. The impairment review assessed cashflow projections over the next five years using the Board approved business plan and a discount rate of 8.5%, which were then sensitised.

The impairment review did not identify any impairment to the carrying value of the trainsets.

Notes *(continued)*

10 Property, plant and equipment – Company

	Rolling stock £m	Repairable spares £m	Plant and equipment £m	Land and buildings £m	Assets under construction £m	Total £m
Cost						
Balance at 1 January 2012	627.2	58.7	6.8	14.2	172.7	879.6
Additions	32.7	3.0	3.8	0.2	16.6	56.3
Impairment	-	(1.0)	-	-	-	(1.0)
Disposals	-	(4.1)	-	(0.1)	-	(4.2)
Balance at 31 December 2012	659.9	56.6	10.6	14.3	189.3	930.7
Additions	6.4	2.5	1.8	8.9	58.2	77.8
Impairment	-	0.8	-	-	-	0.8
Disposals	-	(1.3)	-	-	-	(1.3)
Transfers	-	-	(2.9)	2.9	-	-
Balance at 31 December 2013	666.3	58.6	9.5	26.1	247.5	1,008.0
Depreciation						
Balance at 1 January 2012	251.5	6.2	3.0	1.4	-	262.1
Depreciation charge for the year	51.2	4.9	2.1	1.1	-	59.3
Disposals	-	(0.6)	-	-	-	(0.6)
Balance at 31 December 2012	302.7	10.5	5.1	2.5	-	320.8
Depreciation charge for the year	64.0	8.1	1.5	1.5	-	75.1
Disposals	-	(0.3)	-	-	-	(0.3)
Balance at 31 December 2013	366.7	18.3	6.7	4.0	-	395.6
Net book value						
At 31 December 2013	**299.6**	**40.3**	**2.8**	**22.1**	**247.5**	**612.3**
At 31 December 2012	357.2	46.1	5.5	11.8	189.3	609.9

Leased rolling stock

At 31 December 2013 the net carrying amount of leased rolling stock was £94.6m (2012: £103.3m). The lease obligations are secured against leased equipment (see note 17).

Capitalisation of borrowing costs

Included within assets under construction are payments made to Siemens Plc in relation to the purchase of new trainsets. Borrowing costs associated with this transaction, totalling £9.3m as at 31 December 2013 (2012: £5.2m) have also been capitalised at an internal interest rate of 7.16%.

Changes in estimates

An impairment review was performed as at 31 December 2013 and the depreciation rate for the existing fleet was reassessed. The impairment review assessed cashflow projections over the next five years using the Board approved business plan and a discount rate of 8.5%, which were then sensitised.

The impairment review did not identify any impairment to the carrying value of the trainsets.

Notes *(continued)*

11 Intangible assets – Group and Company

	Brand £m	Software £m	Assets under construction £m	Total £m
Cost				
Balance at 1 January 2012	72.6	12.1	2.0	86.7
Additions	-	0.2	8.1	8.3
Balance at 31 December 2012	72.6	12.3	10.1	95.0
Additions	-	1.5	11.4	12.9
Transfers	-	15.7	(15.7)	-
Balance at 31 December 2013	72.6	29.5	5.8	107.9
Amortisation				
Balance at 1 January 2012	-	6.9	-	6.9
Amortisation for the year	-	2.1	-	2.1
Balance at 31 December 2012	-	9.0	-	9.0
Amortisation for the year	-	4.8	-	4.8
Balance at 31 December 2013	-	13.8	-	13.8
Net book value				
At 31 December 2013	**72.6**	**15.7**	**5.8**	**94.1**
At 31 December 2012	72.6	3.3	10.1	86.0

The brand is considered to have an indefinite useful life as it forms a core part of the business' plans for the future, and will continue to be invested in as long as the Company remains a going concern. Therefore no amortisation has been recognised. Instead, the brand is tested at least annually for impairment. The most recent impairment test was carried out at 31 December 2013.

The brand has been tested for impairment through value in use calculations of the cash-generating unit ('CGU'). For the purposes of impairment testing, the brand has been allocated to the Company and Group's single CGU.

In assessing whether a write-down of the brand is required, the carrying value of the CGU is compared with its recoverable amount. The recoverable amount for the CGU has been measured based on value in use ('VIU'). The key assumptions used in calculating VIU relate to sales and EBITDA over five years, the discount rate and the growth rate used in calculating terminal values.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on independent economic forecasts and management's assessment of the impact of external events and the publicly announced intentions of other companies operating in this sector. Changes in selling prices and direct costs are based on past practices and expectations of future commercial and regulatory changes in the market. It is anticipated that sales volumes will grow at a similar level to the current year over the next one to two years as the Group continues to pursue its strategy of improving service and standards.

Notes *(continued)*

11 Intangible assets – Group and Company (continued)

The Group prepares cash flow forecasts derived from the most recent financial budget and plan approved by management for the next five years and extrapolates cash flows for the following years based on an estimated growth rate of two to three per cent. This rate does not exceed the average long-term growth rate for the sector. The rate used to discount the forecast cash flows is 8.5% per cent.

12 Investments in subsidiaries and joint ventures – company

	2013	2012
	£m	£m
Balance brought forward	**9.3**	13.2
Impairment	**(9.2)**	(3.9)
Balance carried forward	**0.1**	9.3

The Company has the following investments in subsidiaries and joint ventures:

	Shares Held %	**Principal Activity**	**Country of registration**
Eurostar (U.K.) Limited	100	Dormant	England and Wales
Eurostar Express Limited	100	Non-trading	England and Wales
European Passenger Services Limited	100	Non-trading	England and Wales
Eurostar Group Limited	100	Dormant	England and Wales
Eurostar International SAS	100	See below	France
Eurostar International SPRL	100	See below	Belgium
Rail Manche Finance Ltd	50	Rail services	England and Wales
Keolis Eurostar East Coast Ltd	30	Dormant	England and Wales

Eurostar International SAS and Eurostar International SPRL supply certain defined services to EIL. These include train operating services including train driver services, train management services, on board customer care, security, dealing with train delays and organisation of train connections.

On 14 January 2014, European Passenger Services Limited was struck-off.

On 21 January 2014, Eurostar Express Limited was struck-off. During the year Eurostar Express Limited paid a dividend to Eurostar International Limited. Following this transaction the investment in Eurostar Express Limited was impaired down to the value of the remaining net assets.

Notes *(continued)*

13 Deferred tax assets

The analysis of deferred tax assets for Group and Company is as follows:

Deferred tax assets are attributable to the following:

	Assets 2013 £m	Assets 2012 (restated) £m
Deferred tax assets to be recovered within 12 months	**(17.5)**	(13.2)
Deferred tax assets to be recovered after more than 12 months	**(79.2)**	(74.9)
Total deferred tax assets	**(96.7)**	(88.1)

The gross movement on the deferred tax account is as follows:

	2013 £m	2012 (restated) £m
At 1 January	**(88.1)**	(48.2)
Income statement (credit)	**(22.2)**	(35.5)
Tax credited directly to shareholders' funds	**5.6**	(8.3)
Write-down of deferred tax assets on UK tax rate change – to income statement	**5.1**	2.6
Write-down of deferred tax assets on UK tax rate change – to shareholders' funds	**2.9**	1.3
At 31 December	**(96.7)**	(88.1)

The movement in deferred tax assets during the year is as follows:

	Tax losses £m	**Hedge reserve £m**	**Retirement benefit obligations £m**	**Total £m**
Deferred tax assets				
At 31 December 2011 (restated)	(32.5)	(13.3)	(2.4)	(48.2)
Credited to the income statement	(32.9)	-	-	(32.9)
Credited directly to Other Comprehensive Income	-	(4.2)	(2.8)	(7.0)
At 31 December 2012 (restated)	(65.4)	(17.5)	(5.2)	(88.1)
Credited to the income statement	(17.1)	-	-	(17.1)
Credited directly to Other Comprehensive Income	-	8.6	(0.1)	8.5
At 31 December 2013	**(82.5)**	**(8.9)**	**(5.3)**	**(96.7)**

Regarding the restatement of 2012, see Note 1.

Notes *(continued)*

13 Deferred tax assets *(continued)*

Deferred tax assets and liabilities are recognised to the extent that the realisation of the related tax benefits and charges in future periods are probable. The group did not recognise deferred tax assets of £298m in relation to tax losses and other temporary differences amounting to £1.5bn which can be carried forward indefinitely.

14 Inventories

	Group 2013 £m	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
Consumables	**7.5**	7.3	**7.5**	7.3

The write-down of inventories to net realisable value amounted to £0.6m (2012: £0.6m).

15 Trade and other receivables

	Group 2013 £m	Group 2012 (restated) £m	**Company 2013 £m**	Company 2012 (restated) £m
Trade receivables due from parent	**14.4**	12.4	**14.2**	11.9
Other trade receivables	**12.3**	12.9	**12.3**	12.9
Prepayments	**82.4**	70.5	**82.4**	70.5
Other receivables	**46.3**	51.4	**46.3**	50.8
	155.4	147.2	**155.2**	146.1
Non-current	**29.5**	32.7	**29.5**	32.7
Current	**125.9**	114.5	**125.7**	113.4
	155.4	147.2	**155.2**	146.1

Regarding the restatement of 2012, see Note 1.

16 Cash and cash equivalents

	Group 2013 £m	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
Cash and cash equivalents	**231.8**	191.3	**230.0**	190.5

Notes *(continued)*

17 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 21.

	Group 2013 £m	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
Non-current liabilities				
Secured bank loans	**74.5**	55.0	**74.5**	55.0
Finance lease liabilities	**32.2**	36.7	**32.2**	36.7
	106.7	91.7	**106.7**	91.7
Current liabilities				
Current portion of finance lease liabilities	**6.8**	6.4	**6.8**	6.4

Term and debt repayment schedule

	Nominal interest rate	Year of maturity	**2013 Face value**	**2013 Carrying amount**	2012 Face value	2012 Carrying amount
Secured bank loan:						
GBP facility	4.05%	2026	**£72.1m**	**See below**	£55.3m	See below
EUR facility	3.55%	2026	**€27.5m**	**See below**	€21.1m	See below

The GBP and EUR facilities above are part of the same financing arrangement and are carried at amortised cost. As elements of this calculation sit across both facilities, it is not possible to allocate the total £74.5m carrying value between the two. The effective interest rate is 7.16%.

The bank loans are secured over some of the Company's owned trainsets, the carrying value of which was £179.0m as at 31 December 2013.

The amount of undrawn facility is £365.1m on which commitment fees of 0.6% per annum are due to ensure the facility is kept available.

There have been no defaults or breaches in respect of the bank loans in the year.

Finance lease liabilities

31 December 2013

Finance lease liabilities are payable as follows:

Group and company	**Minimum lease payments £m**	**Interest £m**	**Principal £m**
Less than one year	7.8	1.0	6.8
Between one and five years	29.5	2.4	27.1
More than five years	12.8	7.7	5.1
	50.1	11.1	39.0

Notes *(continued)*

17 Other interest-bearing loans and borrowings *(continued)*

31 December 2012

Finance lease liabilities are payable as follows:

Group and company	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	7.5	1.1	6.4
Between one and five years	30.2	11.4	18.8
More than five years	19.8	1.9	17.9
	57.5	14.4	43.1

The Group has no purchase option in respect of the leases.

18 Trade and other payables

	Group 2013 £m	Group 2012 (restated) £m	**Company 2013** £m	Company 2012 (restated) £m
Current				
Trade payables due to parent	**2.7**	4.4	**1.3**	2.9
Other trade payables	**15.2**	20.6	**15.0**	20.4
Accruals and deferred income	**135.6**	126.2	**135.6**	125.8
Other payables	**7.8**	6.7	**9.5**	20.5
	161.3	157.9	**161.4**	169.6

None of the amounts included within trade and other payables are expected to be settled in more than 12 months.

Regarding the restatement of 2012, see Note 1.

19 Pensions

The Company contributes to the 'Eurostar Shared Cost Section' of the Railways Pension Scheme ('RPS'), which provides defined benefits, based on final pensionable earnings, to employees of the Group. The assets of the funded scheme are held separately from those of the Group, being invested in managed funds.

The latest formal actuarial assessment of the RPS Eurostar Section was as at 31 December 2010 which revealed that the accrued liabilities of £315.6m exceeded the market value of the scheme's assets by 28% having taken into account the level of contributions set out below. The main assumptions used were price inflation of 3.2% per annum, that the rate of investment return would be between 1.5% and 2.25% per annum above the rate of price inflation, and that future pensionable pay awards would exceed price inflation by 0.5% per annum. The long-term funding rate has emerged at 26.0%.

The contributions of the Group and the employees were initially set during the period of Government ownership at a reduced level such that there would be no significant anticipated surplus or deficit for the schemes on a long-term basis. A surplus was being utilised over the period to September 2003 during which time it was originally proposed to maintain the employer and employee contributions at the reduced rates of 7.5% and 5% respectively (12.5% total). As the long-term funding rate rose, however, it was agreed to increase total contributions to 15% from July 2000, 17.5% from 1 January 2003, 20% from July 2003, 22.5% from January 2004, 25% from 1 July 2005, and 26.4% from September 2008. The rate is expected to fall to the long term funding rate from January 2018.

Notes *(continued)*

19 Pensions *(continued)*

In each case the employee and employer shares are 40% and 60% respectively (aside from a minor adjustment in September and October 2008 when the employer absorbed an additional element).

The actuarial scheme deficit at 31 December 2010 is derived from the above profile of assumed contribution rates. The actuarial deficit and scheme contributions will be kept under regular review with contributions being set in consultation with the schemes trustees and advisors..

Employer contributions for the period ending 31 December 2013 are 15.84% of Section Pay. This rate is expected to continue until 1 July 2015 when the employer contribution rate will increase to 18.00% of Section Pay until 1 July 2027 when it will revert to 60% of the long-term joint contribution rate of 24.8% of Section Pay. Future rates are subject to review following the next formal actuarial valuation as at 31 December 2013.

The Section is open to new members.

The discounted mean term of the Section's defined benefit obligation (DBO) is 18 years.

The Company is exposed to a number of risks relating to the Section including assumptions not being borne out in practice. The most significant risks are as follows:

i. Asset volatility: There is the risk that fall in asset values are not matched by a corresponding reduction in the value placed on the Section's defined benefit obligation (DBO). The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term.

ii. Change in bond yields: a decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.

iii. Inflation risk: The majority of the Section's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.

iv. Life expectancy: an increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.

v. Contribution rate: The Scheme Rules give the Scheme Actuary the power to set the contribution rates for Eurostar International Ltd if no agreement can be reached between the Trustees and the Company.

The main assumptions used in the IAS 19 valuation are noted below:

	31 December 2013	31 December 2012
	% pa	% pa
Discount rate	**4.5**	4.4
Price inflation (RPI measure)	**3.4**	3.1
Increases to deferred pensions (CPI measure)	**2.4**	2.1
Pension increases (CPI measure)	**2.4**	2.1
Salary increases	**3.9**	3.6

Notes *(continued)*

19 Pensions *(continued)*

Asset data

	Value at 31 December 2013 £m	Value at 31 December 2012 £m
Growth assets	**273.5**	248.0
Government bonds	**6.7**	6.2
Non-government bonds	**6.7**	6.1
Other assets	**1.1**	1.7
Total asset value	**288.0**	262.0

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

		31 December 2013	31 December 2012
Male currently aged 65	Pension under £9,500 pa or pensionable pay under £35,000 pa	**20.7**	20.6
	Others	**22.9**	22.8
Male currently aged 45	Pension under £9,500 pa or pensionable pay under £35,000 pa	**23.1**	23.0
	Others	**25.1**	25.0
Female currently aged 65	Pension under £3,300 pa or pensionable pay under £35,000 pa	**22.6**	22.5
	Others	**25.0**	24.9
Female currently aged 45	Pension under £3,300 pa or pensionable pay under £35,000 pa	**25.1**	25.0
	Others	**27.4**	27.3

Defined benefit obligation sensitivity analysis to significant actuarial assumptions

Year ended 31 December 2013	Sensitivity	Net defined benefit liability £m
Discount rate	-1.0% p.a.	(64.6)
Price inflation (CPI measure)	+1.0% p.a.	(64.9)
Salary increases	+0.5% p.a.	(30.5)
Life expectancy	+1 year	(30.5)

Notes *(continued)*

19 Pensions *(continued)*

Pension scheme liability

	31 December 2013	31 December 2012 (restated)
	£m	£m
Defined benefit obligations	(330.7)	(300.0)
Value of assets	288.0	262.0
Deficit	(42.7)	(38.0)
Adjustment for the members' share of deficit	17.1	15.2
Effect of asset ceiling	-	-
Net defined benefit liability	(25.6)	(22.8)

Reconciliation of pension scheme liability

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£m	£m
Opening net defined benefit liability	(22.8)	(9.4)
Employer's share of pension expense	(7.6)	(6.6)
Employer contributions	5.9	5.4
Total loss recognised in OCI	(1.1)	(12.2)
Closing net defined benefit liability	(25.6)	(22.8)

Disclosed pension expense

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£m	£m
Employer's share of service cost (included within other operating expenses)	6.4	5.7
Employer's share of administration costs (included within other operating expenses)	0.3	0.5
Employer's share of net interest on net defined benefit liability (included within finance costs)	0.9	0.4
Employer's share of pension expense	7.6	6.6

Other comprehensive income

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
	£m	£m
Loss due to liability experience	0.4	5.2
Loss due to liability assumption changes	7.1	11.2
Return on plan assets greater than discount rate	(6.4)	(4.2)
Change in effect of the asset ceiling	-	-
Total loss recognised in OCI	1.1	12.2

Notes *(continued)*

19 Pensions *(continued)*

Reconciliation of liabilities

	Year ended 31 December 2013 £m	Year ended 31 December 2012 (restated) £m
Opening Section liabilities	**300.0**	256.0
Service cost	**10.5**	9.5
Interest cost	**13.1**	12.3
Loss on Section liabilities - experience	**0.5**	8.7
Loss on Section liabilities - demographic	**-**	-
Loss on Section liabilities - financial assumptions	**11.9**	18.6
Actual benefit payments	**(5.3)**	(5.1)
Closing Section liabilities	**330.7**	300.0

Reconciliation of assets

	Year ended 31 December 2013 £m	Year ended 31 December 2012 (restated) £m
Opening Section assets	**262.0**	240.3
Interest income on assets	**11.7**	11.6
Return on plan assets greater than discount rate	**10.7**	7.2
Employer contributions	**5.9**	5.4
Employee contributions	**3.6**	3.5
Actual benefit payments	**(5.3)**	(5.1)
Administration costs	**(0.6)**	(0.9)
Closing Section assets	**288.0**	262.0

The two tables above show the movement in the assets and liabilities of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures, which reflect the Group's share of the costs and liabilities associated with the Section

Historic information

	Year ended 31 December 2013 £m	Year ended 31 December 2012 (restated) £m	Year ended 31 December 2011 (restated) £m
Section liabilities	**330.7**	300.0	256.0
Section assets	**288.0**	262.0	240.3
Deficit	**(42.7)**	(38.0)	(15.7)

The Group expects to contribute approximately £5.5m to its defined benefit plans in the next financial year (Company: £5.5m).

Regarding the restatement of 2012, see Note 1.

Notes *(continued)*

20 Share capital and reserves

Ordinary shares and preference shares

	Preference shares Number	Ordinary shares Number
At 31 December 2012 and 31 December 2013 – fully paid	1	5,000

	31 December 2013 £
Allotted, called up and fully paid	
5,000 ordinary shares of £1 each	5,000
1 preference share of £1 each	1
Shares classified as shareholders' funds	5,000
Shares classified as creditors	1

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

LCR holds one Preference Share. The Preference Share carries no voting rights, has priority over other classes of shares to payments of dividends and in the event of winding-up, and has rights linked to utilisation in the future of certain brought forward tax losses.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes *(continued)*

21 Financial instruments

Fair values

There is no material difference between the carrying value of financial instruments shown in the balance sheet and their fair value.

The financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Group 2013 £m	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
IAS 39 categories of financial instruments				
Loans and receivables				
Cash and cash equivalents (note 16)	**231.8**	191.3	**230.0**	190.5
Trade receivables (note 15)	**26.7**	25.3	**26.5**	24.8
Other receivables (note 15)	**46.3**	51.4	**46.3**	50.8
Total loans and receivables	**304.8**	268.0	**302.8**	266.1
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 17)	**113.5**	98.1	**113.5**	98.1
Trade payables (note 18)	**17.9**	25.0	**16.3**	23.3
Other payables (note 18)	**7.8**	6.7	**9.5**	20.5
Non-derivative financial liabilities	**139.2**	129.8	**139.3**	141.9
Derivatives used for hedging	**45.5**	76.1	**45.5**	76.1
Derivative financial liabilities	**45.5**	76.1	**45.5**	76.1

Derivative financial instruments

Under interest rate swap contracts, the Group and Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group and Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract. All of the derivative financial instruments are in place to match cash payments made on the floating rate debt.

The fair values of the interest rate swaps are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates. None of the cash flow hedge was considered ineffective in the year. Payments due under the terms of the interest rate swaps are made monthly.

21 (b) Credit risk: Group and Company

Financial risk management

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of sale which is in advance of travel. There are certain categories of sales channels where this is not the case: for example travel agents. The largest single amount outstanding at the year end for a third party agent was £0.2m (2012: £0.2m). The carrying value of trade and other receivables classified as financial assets equates to the Group's maximum exposure to credit risk. This is set out in note 15.

Notes *(continued)*

21 Financial instruments *(continued)*

21 (b) Credit risk: Group and Company *(continued)*

In managing risk the Group assesses the risk of its counterparties (e.g. travel agents) before entering into a contract. This assessment is based upon management knowledge and experience.

Cash and cash equivalents in the Group amounted to £231.8m at 31 December 2013 (2012: £191.3m). In order to mitigate credit risk associated with this balance the Group has identified a number of banks with which to invest and has set a maximum deposit limit for each.

The ageing of trade receivables at the balance sheet date was:

Group	**Gross 2013 £m**	**Impairment 2013 £m**	Gross 2012 £m	Impairment 2012 £m
Not past due	**26.0**	-	24.0	-
Past due: 1-30 days	**0.6**	-	1.2	-
Past due: 31-90 days	**0.1**	-	-	-
Past due: 91-180 days	-	-	-	-
More than 180 days	-	-	0.1	0.1
	26.7	-	25.3	0.1

Company	**Gross 2013 £m**	**Impairment 2013 £m**	Gross 2012 £m	Impairment 2012 £m
Not past due	**25.8**	-	23.5	-
Past due: 1-30 days	**0.6**	-	1.2	-
Past due: 31-90 days	**0.1**	-	-	-
Past due: 91-180 days	-	-	-	-
More than 180 days	-	-	0.1	0.1
	26.5	-	24.8	0.1

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group £m	**Company £m**
Balance at 31 December 2011	0.4	0.4
Amounts written off	(0.3)	(0.3)
Balance at 31 December 2012	0.1	0.1
Amounts written off	(0.1)	(0.1)
Balance at 31 December 2013	-	-

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

Notes *(continued)*

21 Financial instruments *(continued)*

21 (c) Liquidity risk

Financial risk management
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Liquidity risk - Group

The Group's banking arrangements are considered to be adequate in terms of flexibility and liquidity for its cash flow needs, thus mitigating its liquidity risk. Regular forward looking cash flow forecasts are prepared to ensure the Group has good visibility of cash flows. Money deals are placed to ensure that these cash flow requirements are met whilst ensuring that an acceptable level of interest is earned.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

31 December 2013

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Secured bank loans (note 17)	74.5	113.4	1.9	81.6	29.9
Finance lease liabilities (note 17)	39.0	50.1	7.8	29.5	12.8
Trade payables (note 18)	17.9	17.9	17.9	-	-
Other payables (note 18)	143.4	143.4	143.4	-	-
	274.8	324.8	171.0	111.1	42.7
Derivative financial liabilities					
Derivatives used for hedging	45.5	23.8	4.2	15.7	3.9

31 December 2012

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Secured bank loans (note 17)	55.0	79.7	1.4	50.6	27.7
Finance lease liabilities (note 17)	43.1	57.5	7.5	30.2	19.7
Trade payables (note 18)	25.0	25.0	25.0	-	-
Other payables (note 18)	132.9	132.9	132.9	-	-
	256.0	295.1	166.8	80.8	47.4
Derivative financial liabilities					
Derivatives used for hedging	76.1	13.3	2.7	9.9	0.7

Notes *(continued)*

21 Financial instruments *(continued)*

21 (c) Liquidity risk – Group *(continued)*

Liquidity risk – Company

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

31 December 2013

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Secured bank loans (note 17)	74.5	113.4	1.9	81.6	29.9
Finance lease liabilities (note 17)	39.0	50.1	7.8	29.5	12.8
Trade payables (note 18)	16.3	16.3	16.3	-	-
Other payables (note 18)	145.1	145.1	145.1	-	-
	274.9	324.9	171.0	111.1	42.7
Derivative financial liabilities					
Derivatives used for hedging	45.5	23.8	4.2	15.7	3.9

31 December 2012

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Secured bank loans (note 17)	55.0	79.7	1.4	50.6	27.7
Finance lease liabilities (note 17)	43.1	57.5	7.5	30.2	19.7
Trade payables (note 18)	23.3	23.3	23.3	-	-
Other payables (note 18)	146.1	146.1	146.1	-	-
	267.5	306.6	178.3	80.8	47.4
Derivative financial liabilities					
Derivatives used for hedging	76.1	13.3	2.7	9.9	0.7

Notes *(continued)*

21 Financial instruments *(continued)*

21 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

The Group's approach to assessment of market risk is outlined in the Directors' Report.

Group and Company

Market risk – Interest rate risk

The impact of a change of 100 basis points on all relevant floating interest rates on annualised interest receivable from cash deposits outstanding at the balance sheet date is £2.9m increase (2012: £1.9m increase) in interest income.

A movement in interest rates would impact the payments made under the Ashford finance lease. However this is mitigated by underwriting of the rental charges by DfT such that there is no net exposure to interest rate risk. The trainset finance lease obligations are at fixed interest rates and are therefore not impacted by a change in interest rates.

A movement in interest rates would impact the interest payments due under the bank loan. However, this is mitigated through the use of interest rate swap contracts to effectively fix the net interest payable across the loan and swap contracts combined.

The interest rate swap contracts mature in 2026, in line with the maturity profile of the debt.

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2013 were £105.3m (2012: £72.6m).

At 31 December 2013, the fixed interest rates ranged between 4.83% and 6.35% (2012: between 4.85 and 6.35%), and the main floating rates are LIBOR/EURIBOR plus a margin of either 1.1% or 2.1%. To the extent that the hedge is effective, gains and losses on the interest rate swap fair value are recognised in the hedge reserve within shareholders' funds. As at 31 December 2013 the hedge was 1.3% ineffective, resulting in a £0.1m credit to finance income. The hedge effectiveness of 98.7% remains within the 80%-125% threshold for hedge accounting.

Movements in value associated with interest rate swap contracts as at 31 December 2013 will be continuously released to the income statement within finance cost or capitalised as part of assets under construction as appropriate, until the repayment of the bank borrowings (note 17).

Notes *(continued)*

21 Financial instruments *(continued)*

21 (d) Market risk – Interest rate risk *(continued)*

Market risk - Foreign currency risk

Group

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments:

31 December 2013

	Sterling £m	Euro £m	US Dollar £m	Total £m
Cash and cash equivalents (note 16)	205.9	25.7	0.2	231.8
Trade receivables (note 15)	9.8	16.6	0.3	26.7
Trade payables (note 18)	(6.9)	(10.6)	(0.4)	(17.9)
Net exposure	208.8	31.7	0.1	240.6

Company

31 December 2013

	Sterling £m	Euro £m	US Dollar £m	Total £m
Cash and cash equivalents (note 16)	205.9	23.9	0.2	230.0
Trade receivables (note 15)	9.9	16.5	0.3	26.7
Trade payables (note 18)	(6.9)	(9.0)	(0.4)	(16.3)
Net exposure	208.9	31.4	0.1	240.4

Sensitivity analysis

Group

A 10% weakening of the following currencies against the pound sterling at 31 December 2013 would have increased/(decreased) shareholders' funds and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

31 December 2013

	Shareholders' funds £m	Profit or loss £m
€	5.7	4.4
$	-	-

A 10% strengthening of the above currencies against the pound sterling at 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes *(continued)*

21 Financial instruments *(continued)*

21 (d) Market risk – Foreign currency risk (continued)

Company

A 10% weakening of the following currencies against the pound sterling at 31 December 2013 would have increased (decreased) shareholders' funds and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

31 December 2013

	Shareholders' funds £m	Profit or loss £m
€	5.9	4.6
$	-	-

A 10% strengthening of the above currencies against the pound sterling at 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

21 (e) Capital risk management

Group and Company

The Group regards its capital as comprising its Shareholders' funds, cash and cash equivalent, finance leases and borrowings. The Group seeks to manage its capital in such a manner that the group safeguards its ability to continue as a going concern and to fund its future development. In continuing as a going concern, it seeks to provide for returns to shareholders as well as enabling repayment of its liabilities as a trading business.

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and buy-back of existing shares and issuing new borrowings or repaying existing borrowings.

The Group's and Company's overall capital risk management strategy remains unchanged from 2012.

Note 20 to the Financial Statements provides details regarding the Company's share capital and movements in the year. There were no breaches of any requirements with regard to any relevant conditions imposed by the Company's Articles of Association during the periods under review.

Details of the Company's working capital facilities are given in note 17. Such facilities are subject to certain financial performance covenants. There have been no breaches of these covenants in the period under review.

Notes *(continued)*

22 Operating leases

Operating lease rental payables

Non-cancellable operating lease rentals are payable as follows:

	Trainsets	**Land & Buildings**	Trainsets	Land & Buildings
	2013	**2013**	2012	2012
	£m	**£m**	£m	£m
Less than one year	**8.4**	**4.6**	8.4	4.8
Between one and five years	**10.6**	**12.8**	18.9	14.6
More than five years	**-**	**52.5**	-	55.6
	19.0	**69.9**	27.3	75.0

The Group leases five trainsets under operating leases. Of these one is leased until 31 December 2016 and four are leased until 31 December 2024. The lease costs have been prepaid from 1 January 2016 (1 set) and 1 May 2016 (remaining 4 sets).

The Group leases space at a number of stations, train depot and storage sites and office space.

Operating lease rental receivables

Non-cancellable operating lease rentals are receivable as follows:

	Trainsets	Trainsets
	2013	2012
	£m	£m
Less than one year	**2.0**	1.9
Between one and five years	**1.7**	3.4
	3.7	5.3

The Group leases six trainsets under operating leases. They are leased until 8 December 2015.

Group and Company

During the year, £13.0m (2012: £13.2m) was recognised as an expense in the income statement in respect of operating leases.

23 Commitments

Capital commitments - Group and Company

On 3 December 2010, EIL signed a contract with Siemens Plc for the design, supply and maintenance of 10 new high speed trainsets. At 31 December 2013, the Group's and Company's capital commitments outstanding totalled £312.5m (2012: £348.0m).

At 31 December 2013, the Company had capital commitments of £54.3m (2012: £54.9m) with SNCF in respect of the mid-life overhaul and refurbishment of the current fleet, and £36.3m with third party suppliers. The Company also had capital commitments of £2.6m (2012: £3.2m) in respect of other assets.

Notes *(continued)*

24 Contingencies

Group and company

The Company and its subsidiaries are, from time to time, parties to or affected by legal proceedings and claims and they enter into guarantees, financing arrangements and commitments which are in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings, claims, guarantees, financing arrangements and commitments, either individually or in aggregate, will have a material adverse effect upon the Group's financial position. Contingent liabilities relating to these contractual obligations are estimated to be less than £1m.

25 Related parties

Group

Identity of related parties with which the Group has transacted

Related party	Relationship	Nature of transactions
Société Nationale des Chemins de fer Français ('SNCF')	Ultimate parent	Provision of sales and distribution, maintenance, seconded staff, station occupancy, telecommunications and IT services, provision of leased trainsets, director services
SNCF Voyages Developpement SAS ('SVD')	Parent	Dividend paid
Avancial (Sysraildata)	Fellow subsidiary	Provision of IT services
SNCF Energies	Fellow subsidiary	Provision of traction energy
Masteris	Fellow subsidiary	Provision of maintenance and engineering work
Rail Europe 4A	Fellow subsidiary	Sales commission and provision of marketing services
Rail Europe Group Inc	Fellow subsidiary	Sales commission and provision of marketing services
Rail Solutions	Fellow subsidiary	Provision of IT services
SCI La Chapelle	Fellow subsidiary	Provision of rented accommodation
Voyages sncf.com	Fellow subsidiary	Provision of media services
VSC Technologies	Fellow subsidiary	Provision of IT services
Secretary of State for Transport on behalf of HM Government ('DfT')	Other related party	Underwriting of finance lease obligations
London & Continental Railways Ltd	Other related party	Director services
SNCB	Other related party	Provision of sales and distribution, maintenance, seconded staff, station occupancy and leased trainsets, director services

Notes *(continued)*

25 Related parties - Group *(continued)*

Related party transactions

	Sales	Costs incurred	Dividend paid	Sales	Costs incurred	Dividend paid
	Year ended 31 December 2013			Year ended 31 December 2012		
	£m	£m	£m	£m	£m	£m
Ultimate parent of the Group - SNCF	5.9	86.9	-	2.4	84.5	-
Parent of the Group - SVD	-	0.1	9.0	-	0.1	3.4
Fellow subsidiaries of SNCF	-	15.7	-	-	22.3	-
SNCB	-	17.0	0.8	-	18.3	0.3
LCR	-	-	6.5	-	-	2.5
	5.9	119.7	16.3	2.4	125.2	6.2

	Due from 2013 £m	Due to 2013 £m	Due from 2012 £m	Due to 2012 £m
Ultimate parent of the Group - SNCF:				
due within one year	15.2	14.1	11.9	12.9
due between one and five years	-	2.7	-	4.1
due after more than five years	35.6	-	32.8	-
Parent of the Group – SVD due within one year	-	-	-	-
Fellow subsidiaries of SNCF due within one year	-	1.6	-	3.9
LCR:				
due within one year	-	-	-	-
SNCB due within one year	2.6	3.4	2.3	4.7
DfT:				
due within one year	5.4	-	5.4	-
due between one and five years	17.4	-	14.5	-
due after more than five years	12.1	-	17.9	-
	88.3	21.8	84.8	25.6

Notes *(continued)*

25 Related parties *(continued)*

Company

Identity of related parties with which the Company has transacted

Related party	**Relationship**	**Nature of transactions**
Eurostar Express Ltd	Subsidiary	Non-trading
Eurostar Group Ltd	Subsidiary	Non-trading
Eurostar International S.A.S.	Subsidiary	Provision of seconded staff
Eurostar International S.P.R.L	Subsidiary	Provision of seconded staff
Rail Manche Finance Ltd	Joint venture	Provision of rail services
Société Nationale des Chemins de fer Français ('SNCF')	Ultimate parent	Provision of sales and distribution, maintenance, seconded staff, station occupancy, telecommunications and IT services, provision of leased trainsets, director services
SNCF Energies	Fellow subsidiary	Provision of traction energy
Avancial (Sysraildata)	Fellow subsidiary	Provision of IT services
SNCF Voyages Developpement SAS ('SVD')	Parent	Dividend paid
Masteris	Fellow subsidiary	Provision of maintenance and engineering work
Rail Europe 4A	Fellow subsidiary	Sales commission and provision of marketing services
Rail Europe Group Inc	Fellow subsidiary	Sales commission and provision of marketing services
Rail Solutions	Fellow subsidiary	Provision of IT services
VSC Technologies	Fellow subsidiary	Provision of IT services
Voyages sncf.com	Fellow subsidiary	Provision of media services
Secretary of State for Transport on behalf of HM Government ('DfT')	Other related party	Underwriting of finance lease obligations
London & Continental Railways Ltd	Other related party	Director services
SNCB	Other related party	Provision of sales and distribution, maintenance, seconded staff, station occupancy and leased trainsets, director services

Related party transactions

	Sales Year ended 31 December 2013 £m	**Cost incurred Year ended 31 December 2013 £m**	Sales Year ended 31 December 2012 £m	Cost incurred Year ended 31 December 2012 £m
Ultimate parent of the Group	**5.4**	**71.4**	0.1	70.3
Parent of the Group	**-**	**0.1**	-	0.1
Fellow subsidiaries of SNCF	**-**	**15.7**	-	22.3
Subsidiary companies	**-**	**17.8**	1.3	17.0
SNCB	**-**	**15.0**	-	16.4
	5.4	**120.0**	1.4	126.1

	Due from 2013 £m	**Due to 2013 £m**	Due from 2012 £m	Due to 2012 £m
Ultimate parent of the Group:				
due within one year	**15.0**	**11.9**	11.8	10.7
due between one and five years	**-**	**2.7**	-	4.1
due after more than five years	**35.6**	**-**	32.8	-
Parent of the Group due within one year	**-**	**-**	-	-
Subsidiaries due within one year	**0.7**	**2.3**	0.3	15.0
Fellow subsidiaries of SNCF due within one year	**-**	**1.6**	-	3.9
LCR:				
due within one year	**-**	**-**	-	-
SNCB	**2.6**	**2.7**	2.3	4.0
DfT:				
due within one year	**5.4**	**-**	5.4	-
due between one and five years	**17.4**	**-**	14.5	-
due after more than five years	**12.1**	**-**	17.9	-
	88.8	**21.2**	85.0	37.7

Key management personnel are considered to be the Directors of the Company and their remuneration is disclosed in the Directors' Report.

26 Ultimate parent company and parent company of larger group

The company considers itself to be controlled by SNCF Voyages Developpement SAS, which is a subsidiary of SNCF, the ultimate parent company, and is incorporated in France. The controlling party of SNCF is the French Government.

27 Subsequent events

There were no material events subsequent to the balance sheet date.