Eversholt Funding plc

Annual Financial Statements
for the year ended 31 December 2012

Registered No: 7329930

Annual Financial Statements
for the year ended 31 December 2012

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Directors' report
for the year ended 31 December 2012

Principal activities

Eversholt Funding plc (the "Company") was incorporated and is domiciled in England and Wales. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 18.

The Company's principal activity is the provision of finance to the Group.

Business review

During the year, the Company raised £150m through a bond issue, the proceeds of which together with an additional £55m raised from repayments by other Group companies was used to repay £205m of bank debt.

The Company's results for 2012 were significantly improved on 2011 due to an improvement in the mark to market value of the derivatives.

The business is funded principally by external funding. The Company has no employees.

Risk management

The Company is subject to the risk management objectives and policies of the Group.

These objectives, together with an analysis of the exposure to such risks, are set out in note 17 of the financial statements.

The principal business risks for the Company are market, liquidity and credit risk. The market risk arises from exposure to interest rate fluctuations on the value of and cashflows attributable to borrowings and deposits. the cashflow risk is managed by means of interest rate swaps which, for the current year, have the effect of fixing interest rates on the majority of the debt.

The liquidity risk arises from the Company's obligation to make interest and principal repayments on its debt. The day to day cash flow requirements of the Group are closely monitored.

The credit risk arises from placing cash deposits and entering into derivative contracts with third parties. Credit risk is managed in line with established procedures which consider credit quality and counterparties and concentration of risk.

Performance

The Company's results for the year under review are as detailed in the income statement on page 6.

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

Future developments

No further significant developments are currently anticipated, but the Directors keep opportunities under regular review.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2012 (year ended 31 December 2011: nil).

Going concern basis

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

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

Directors

The Directors who served during the year were as follows:

M B Kenny
S F Purves
LDC Securitisation Director No 3 Limited

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial period but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company, interests in the holding company are more fully described in note 18.

Supplier payment policy

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

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the Group to provide the necessary capital resources which are managed on a group basis.

It is the Group's objective to maintain a strong capital base to support the development of its business.

Disclosure of information to the auditor

Each person who is a director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

KPMG Audit Plc are deemed to be reappointed in accordance with an elective resolution made under Section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006.

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

for the year ended 31 December 2012

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (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 Company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Company's annual financial statements were approved by the Board of Directors on 26 February 2013 and signed on their behalf by:

M B Kenny
Director

Registered Office:
210 Pentonville Road
London
N1 9JY

Independent Auditor's Report to the Members of Eversholt Funding plc

for the year ended 31 December 2012

We have audited the financial statements of Eversholt Funding plc for the year ended 31 December 2012 set out on pages 6 to 21. 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.

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 Directors' Responsibilities Statement set out on page 4, 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 financial statements is provided on the Financial Reporting Council's web site 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 Company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

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

28 February 2013

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Income statement
for the year ended 31 December 2012

	Notes	2012 £	2011 £
Revenue			
Fee Income		**15,000**	15,000
Finance income	*4*	**89,226,944**	89,816,304
		89,241,944	89,831,304
Finance expenses	*5*	**(89,607,981)**	(90,122,077)
Net fair value loss on derivative financial instruments		**(23,994,072)**	(70,307,015)
		(24,360,109)	(70,597,788)
Administrative expense	*6*	**(16,107)**	(57,248)
Loss before tax		**(24,376,216)**	(70,655,036)
Income tax credit	*8*	**4,149,079**	17,666,768
Loss for the year		**(20,227,137)**	(52,988,268)

There were no discontinued or discontinuing operations during the period.

The notes on pages 10 to 21 form an integrated part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2012

There has been no comprehensive income or expense other than the loss for the year as shown above (year ended 31 December 2011: nil).

Statement of financial position
as at 31 December 2012

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Deferred tax	10	**22,351,658**	18,296,762
Loan receivables	11	**1,591,949,999**	1,099,999,998
		1,614,301,657	1,118,296,760
Current assets			
Loan receivables	11	**2,446,962**	546,964,999
Derivative financial instruments	12	**741,177**	-
Current tax		**61,871**	-
Trade and other receivables		**1,389**	-
Cash and cash equivalents	13	**502,607**	13,112,641
		3,754,006	560,077,640
Total assets		**1,618,055,663**	1,678,374,400
Liabilities and equity			
Current liabilities			
Trade and other payables	14	**208,903**	49,005
Current tax		**-**	2,119,278
Borrowings	15	**10,227,680**	22,180,699
Derivative financial instruments	12	**-**	554,871
		10,436,583	24,903,853
Non-current liabilities			
Borrowings	15	**1,578,211,055**	1,629,125,504
Derivative financial instruments	12	**97,922,298**	72,632,179
		1,676,133,353	1,701,757,683
Total liabilities		**1,686,569,936**	1,726,661,536
Equity			
Share capital	16	**50,000**	50,000
Accumulated deficit		**(68,564,273)**	(48,337,136)
Total equity		**(68,514,273)**	(48,287,136)
Total equity and liabilities		**1,618,055,663**	1,678,374,400

The notes on pages 10 to 21 form an integral part of these financial statements.

The financial statements were approved by the Board of directors and authorised for issue on 26 February 2013. They were signed on its behalf by:

S F Purves
Director

Company registration number: 7329930

Statement of cash flows
for the year ended 31 December 2012

	Notes	2012 £	2011 £
Loss before tax		**(24,376,216)**	(70,655,036)
Finance expense		**89,607,981**	90,122,077
Finance income		**(89,226,944)**	(89,816,303)
Amortisation of capitalised finance charges		**4,634,361**	14,607,573
Capitalisation of finance charges		**(93,246)**	(4,855,328)
Unrealised loss on fair value of derivative financial instruments		**23,994,072**	70,307,014
Operating cash flows before changes in working capital		**4,540,008**	9,709,997
Adjustments for:			
- Increase in trade and other receivables		**(1,389)**	-
- Increase in trade and other payables		**159,898**	(585,954)
Cash generated by operating activities		**4,698,517**	9,124,043
Group relief		**(2,086,967)**	(262,560)
Realised gain on derivative financial instrument		**-**	8,345,297
Net cash generated by operating activities		**2,611,550**	17,206,780
Cash flow from investing activities			
Intra-group term loans raised		**204,999,997**	398,400,000
Intra-group term loans repaid		**(150,000,000)**	(511,901,152)
Interest received on loans		**82,658,486**	79,911,454
Net cash generated by investing activities		**137,658,483**	(33,589,698)
Cash flow from financing activities			
Movement on intercompany account with Eversholt Rail (UK) Limited		**(14,570,772)**	(13,810,462)
Bonds issued		**150,000,000**	511,901,154
Borrowings repaid external		**(205,000,000)**	(398,400,000)
Interest paid on bonds		**(69,728,000)**	(56,523,005)
Interest paid on bank loans		**(12,992,415)**	(15,346,755)
Interest paid on swaps		**(6,403,356)**	(7,659,162)
Interest paid on working capital loan		**-**	(112,751)
Other finance expense		**(555,998)**	(193,087)
Interest received on swaps		**6,370,474**	7,659,225
Net cash utilised by financing activities		**(152,880,067)**	27,515,157
Net (decrease)/increase in cash and cash equivalents		**(12,610,034)**	11,132,239
Cash and cash equivalents at beginning of the year		**13,112,641**	1,980,402
Cash and cash equivalents at the end of year	*13*	**502,607**	13,112,641

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

	Called up share capital £	Accumulated deficit £	Total shareholders' equity £
Balance at 1 January 2011	50,000	4,651,132	4,701,132
Loss for the year	-	(52,988,268)	(52,988,268)
Balance at 31 December 2011	50,000	(48,337,136)	(48,287,136)
Loss for the year	-	(20,227,137)	(20,227,137)
Balance at 31 December 2012	**50,000**	**(68,564,273)**	**(68,514,273)**

Notes to the Annual Financial Statements
for the year ended 31 December 2012

1. General Information

Eversholt Funding plc (the "Company") is a company incorporated and domiciled in England and Wales.

The registered office of the Company is 210 Pentonville Road, London, N1 9JY. The principal activities of the Company are set out on page 2.

2. Basis of Preparation

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

2.1 Compliance with International Financial Reporting Standards

The financial statements of Eversholt Funding plc have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2012, there were no unendorsed standards effective for the year ended 31 December 2012 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the financial statements for the year ended 31 December 2012 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

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

2.2 Standards and Interpretations issued by the IASB

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

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

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

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

2.2.2 IFRS 13 Fair Value Measurement

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

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

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

2. Basis of Preparation (continued)

2.3 Going concern

The accumulated losses being greater than the called up share capital gives rise to there being an excess of liabilities over assets. The financial statements have been prepared on the going concern basis because there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

3. Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been applied consistently to all periods presented in these financial statements.

3.1 Finance income and expense

Finance income and expense for all interest bearing financial instruments is recognised in 'Finance income' and 'Finance expense' in the income statement using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

3.2 Fees and commission income

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

3.3 Income tax

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

Current tax is the tax expected to be payable on the taxable loss for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2012

3. Summary of significant accounting policies (continued)

3.4 Financial instruments

3.4.1 Financial assets

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

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

The Company holds the following classes of financial assets.

3.4.2 Loans and receivables

Loans and receivables include receivables originated by the Company which are not classified either as held for trading or designated at fair value. Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

3.4.3 Cash and cash equivalents

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

3.4.4 Financial liabilities

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

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. The Company derecognises the financial liability when the obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

3.4.5 Impairment of financial assets

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

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

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

3. Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.5 Impairment of financial assets (continued)

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

Collectively assessed impairment losses are calculated on the basis of past experience, current economic conditions and other relevant factors to provide for losses not yet specifically identified.

Financial assets are written off to the extent that there is no realistic prospect of recovery.

3.4.6 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.4.7 Derivatives

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

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

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

3.5 Statement of cash flows

The statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in intercompany transactions are shown under the heading of 'Financing activities'. Such movements arise from the financing of the Eversholt Rail Group for which the Company is the finance provider.

3.6 Share capital

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

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

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

3. Summary of significant accounting policies (continued)

3.7 Use of assumptions and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The critical judgements and estimates that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements relate to the determination of the fair value of financial instruments. In determining fair values, management has taken into account the contractual cash flows attaching to the instrument and an independently sourced yield curve for the reporting date.

4. Finance income

	2012 £	2011 £
Interest on intra-group loans	**89,027,818**	89,816,240
Interest on bank deposits/balances	**2,514**	64
Interest received from Eversholt Rail (UK) Limited	**196,612**	-
	89,226,944	89,816,304

5. Finance expenses

	2012 £	2011 £
Interest payable on bank loans	**(12,938,774)**	(13,704,559)
Interest payable on derivative financial instruments	**(6,370,474)**	(9,382,945)
Interest payable on bonds	**(69,719,712)**	(66,665,408)
Interest payable to Eversholt Rail (UK) Limited	**-**	(176,078)
Fees payable	**(579,021)**	(193,087)
	(89,607,981)	(90,122,077)

6. Administrative expense

Administrative expenses include the following:	2012 £	2011 £
Fees payable to the company's auditor for the audit of the company's annual accounts	**(9,859)**	(9,857)

The Company has no employees and hence no staff costs.

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

7. Directors' emoluments

Non-executive directors

	2012 £	2011 £
Director's fees	**23,143**	22,486

The charge for two of the Directors' services has been borne by another group company. The charge for LDC Securitisation Director No. 3 Limited has been borne by the Company and is reflected as directors remuneration in administrative expense.

8. Income tax credit

	Note	2012 £	2011 £
Current tax			
UK Corporation tax on current year profit		**94,183**	(2,119,278)
Deferred tax			
Origination and reversal of temporary differences	*10*	**4,054,896**	19,786,046
Total income tax credit		**4,149,079**	17,666,768

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

	2012 £	2011 £
Taxation at corporation tax rate of 24.5% (31 December 2011: 26.5%)	**5,972,173**	18,723,585
Change in tax rates	**(1,823,094)**	(1,056,817)
Income tax credit	**4,149,079**	17,666,768

9. Dividends

For the year ended 31 December 2012 no dividend has been paid or declared (31 December 2011 : nil)

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

10. Deferred tax asset

Deferred tax arises on timing differences of a derivative financial instrument

	2012	2011
	£	£
Balance at beginning of the year	**18,296,762**	(1,489,284)
Income statement credit	**4,054,896**	19,786,046
Balance at end of the year	**22,351,658**	18,296,762

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

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

11. Loan Receivables

	2012	2011
Current	£	£
European Rail Finance Limited	-	367,905,820
European Rail Finance (GB) Limited	-	23,555,415
Eversholt Rail (380) Limited	-	121,136,314
Eversholt Depot Finance (UK) Limited	-	5,331,000
Eversholt Rail Holdings (UK) Limited	-	27,223,100
Eversholt Rail (UK) Limited	**2,446,962**	1,813,350
	2,446,962	546,964,999
Non-current		
European Rail Finance Limited	**1,237,460,147**	915,320,345
European Rail Finance (GB) Limited	**58,916,271**	37,221,954
Eversholt Rail (380) Limited	**178,208,598**	60,076,087
Eversholt Depot Finance (UK) Limited	**18,779,673**	14,156,498
Eversholt Rail Holdings (UK) Limited	**96,786,960**	73,225,114
Eversholt Rail (UK) Limited	**1,798,350**	-
	1,591,949,999	1,099,999,998
	1,594,396,961	1,646,964,997

These loans are repayable in line with the Company's external debt. Interest receivable on these loans is in line with the underlying debt more fully described in note 15.

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

12. Derivative financial instruments

	2012 £	2011 £
Current		
Interest rate swaps - assets	**741,177**	-
Interest rate swaps - liabilities	-	(554,871)
	741,177	(544,871)
Non-current		
Interest rate swaps - liabilities	**(97,922,298)**	(72,632,179)

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

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

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

13. Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2012 £	2011 £
Bank balances	**502,607**	13,112,641

£500,000 of cash and cash equivalents is restricted cash in line with the terms of an agreement with the security trustee for the Company's bond holders.

14. Trade and other payables

	2012 £	2011 £
Fees and other payables accrued	**208,903**	49,005

15. Borrowings

	2012 £	2011 £
Current		
Eversholt Rail (UK) Ltd	-	12,138,811
Interest accrued	**13,300,857**	13,364,410
Capitalised fees	**(3,073,177)**	(3,322,522)
	10,227,680	22,180,699
Non-current		
Bank loans	**341,950,000**	546,950,000
Bonds	**1,250,000,000**	1,100,000,000
Capitalised fees	**(13,738,945)**	(17,824,496)
	1,578,211,055	1,629,125,504
	1,588,438,735	1,651,306,203

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

15. Borrowings (continued)

The loan from Eversholt Rail (UK) Limited, is unsecured, has no fixed date for repayment and is therefore technically repayable on demand. Interest is charged at Libor plus 1.75% (31 December 2011: Libor plus 1.75%).

The Bank loans are from a consortium of banks. The loans are repayable in December 2016. Interest on these loans is currently charged at Libor plus 1.75% (31 December 2011: Libor plus 1.75%).

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

None of the bonds are puttable

Bank loans and Bond agreements impose certain covenants on the performance and management of the Group. Failure to comply with these covenants may result in the loans being repayable on demand.

The Eversholt Investment Limited (Security group) has granted security over all of its assets to enable it to secure this financing.

Fees incurred on raising finance have been capitalised and are being amortised over the term of the borrowings.

16. Share capital

	2012 £	2011 £
Authorised, allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50,000	50,000

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

17. Risk management

The Company has exposure to the following types of risk arising from its use of financial instruments: credit risk, liquidity risk and market risk. Market risk includes interest rate risk and foreign exchange risk.

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

Capital risk management

The Board actively monitors the capital structure of the Company to ensure that the Company is able to continue as a going concern. Consideration is given to the cost and risks associated with each class of capital and to maximising the return to stakeholders through the optimisation of the debt to equity ratio. The Board actively monitors the cash and availability of funding.

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

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. The Company manages credit risk by way of established risk management processes encompassing credit approvals and the monitoring and reporting of exposures. Regular reviews are undertaken to assess and evaluate the financial stability of counterparties.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2012

17. Risk management (continued)

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its cash flow requirements on a daily basis and compares expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. The Company borrows funds from another Group entity to meet any shortfall. Conversely, the Company lends any surplus funds to other Group entities.

Undiscounted cash flows in respect of financial assets and financial liabilities are analysed below by their contractual due date:

	Carrying value £	Contractual cash flows £	On demand £	Due within 1 year £	Due between 1-5 years £	Due after 5 years £
31 December 2012						
Financial assets						
Available for sale financial instruments						
- Derivative financial instruments	741,177	483,794	-	483,794	-	-
Loans and receivables						
- Loan receivables	1,594,396,961	2,676,491,936	2,446,962	83,354,741	673,652,003	1,917,038,230
- Trade and other receivables	1,389	1,389	-	1,389	-	-
- Current tax asset	61,871	61,871	-	61,871	-	-
	1,594,460,221	2,676,555,196	2,446,962	83,418,001	673,652,003	1,917,038,230
Cash and cash equivalents	502,607	502,607	2,607	-	-	500,000
Financial liabilities						
Derivative financial instruments	(97,922,298)	(103,432,659)	-	(7,423,599)	(36,982,076)	(59,026,984)
Non-derivative instruments – amortised cost						
- Trade and other payables	(208,903)	(208,903)	-	(208,903)	-	-
- Current tax liabilities	-	-		-		
- Borrowings	(1,588,438,735)	(2,674,044,974)	-	(83,354,741)	(673,652,003)	(1,917,038,230)
	(1,588,647,638)	(2,674,253,877)	-	(83,563,644)	(673,652,003)	(1,917,038,230)
Total financial instruments	(90,865,931)	(100,144,939)	2,449,569	(7,085,448)	(36,982,076)	(58,526,984)
31 December 2011						
Financial assets						
Loans and receivables	1,646,964,997	1,646,964,997	1,646,964,997	-	-	-
Cash and cash equivalents	13,112,641	13,112,641	13,112,641	-	-	-
Financial liabilities						
Available for sale financial instruments						
- Derivative financial instruments	(73,187,050)	9,669,053	-	3,628,574	14,941,739	(8,901,260)
Other financial liabilities – amortised cost						
- Trade and other payables	(49,005)	(49,005)	-	(49,005)	-	-
- Current tax liabilities	(2,119,278)	(2,119,278)	-	(2,119,278)	-	-
- Borrowings	(1,651,306,203)	(2,721,514,746)	-	(229,705,569)	(777,830,573)	(1,713,978,604)
	(1,726,661,536)	(2,723,683,029)	-	(231,873,852)	(777,830,573)	(1,713,978,604)
Total financial instruments	(66,583,898)	(1,053,936,338)	1,660,077,638	(228,245,278)	(762,888,834)	(1,722,879,864)

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

17. Risk management (continued)

Liquidity risk management (continued)

Bonds with a carrying value of £1,250,000,000 (31 December 2011:£1,100,000,000) have a fair value of £1,503,237,000 (31 December 2011: £1,223,492,300) and would fall into the level one group. There are no material differences between the carrying value and the fair value of other financial assets and liabilities as at 31 December 2012 (31 December 2011:nil).

Interest rate risk management

The Company is exposed to interest rate risk because it borrows and deposits funds at fixed and floating interest rates. The cash flow risk is managed by the Company to maintain an appropriate mix between fixed and floating rate borrowings through the use of interest rate swaps.

	2012 £	2011 £
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	**(1,150,000,000)**	(1,100,000,000)
Variable rate instruments		
Financial assets	**1,594,396,961**	1,646,964,996
Financial liabilities	**(441,950,000)**	(546,950,000)
	1,152,446,961	1,100,014,996

Interest rate sensitivity analysis

The impact of a 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £160,644 on unhedged debt offset by an increase in intercompany working capital interest received of £46,061. This would be further offset by an increase in cash deposit interest received of £2,500. A 50 basis points upwards parallel shift in the yield curve would have led to a decrease in negative fair value adjustment (loss) of £24,942,748 in the derivative financial instruments.

Market risk management

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

18. Related-party transactions

18.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 2) and with its fellow group undertakings of the Eversholt Rail Group, namely:

- European Rail Finance Holdings Limited
- European Rail Finance Limited
- European Rail Finance (GB) Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Investment Limited
- Eversholt Finance Holdings Limited
- Eversholt Rail (UK) Limited
- Eversholt Depot Finance (UK) Limited
- Eversholt Rail (380) Limited
- Eversholt Rail (365) Limited
- European Rail Finance (2) Limited

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

18. Related-party transactions (continued)

18.1 Identity of related parties (continued)

The ultimate parent undertaking (which is the ultimate controlling party) is Eversholt Investment Group (Luxembourg) Sarl. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Eversholt Investment Limited. The immediate holding company is Eversholt Finance Holdings Limited. The result of the Company is included in the group financial statements of Eversholt Investment Limited.

Copies of the group financial statements may be obtained from the following address:

Block 4
Regus House
Harcourt Centre
Harcourt Road
Dublin 2
Ireland

18.2 Transactions with related parties

The company has loan accounts with fellow subsidiaries more fully described in note 11 and note 15. Interest on these accounts is more fully described in notes 4 and 5.

Payments made to directors are more fully described in note 7.

The Directors held the following interest in Eversholt Investment Group (Luxembourg) Sarl:

Preferred Equity Certificates	**MB Kenny**	**SF Purves**
Certificates subscribed	199,675	147,982
Certificates redeemed	(12,548)	(9,299)
Certificates held at 31 December 2011	**187,127**	**138,683**
Certificates redeemed	(27,044)	(20,033)
Certificates acquired	205,543	152,147
Certificates held at 31 December 2012	**365,626**	**270,797**
Ordinary shares held		
Shares subscribed and held at 31 December 2012	**901**	**667**
Shares subscribed and held at 31 December 2011	901	667

19. Contingent liabilities

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

20. Subsequent events

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