Eversholt Rail (380) Limited

Annual Financial Statements
for the year ended 31 December 2012

Registered No: 1139640

Annual financial statements
for the year ended 31 December 2012

Contents

Directors' report
for the year ended 31 December 2012

Principal activities

Eversholt Rail (380) Limited (the "Company"), is incorporated and domiciled in England and Wales. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 21.

The principal activity of the Company is to own and lease Class 380 rolling stock in the UK.

Business review

Deliveries of the Class 380 fleet commenced in 2010, the final delivery was received in 2011 and the fleet was leased to the train operator under an operating lease.

Another group undertaking, Eversholt Rail (UK) Limited, provides asset management and administrative services to the Company, charging an annual management fee.

The business is funded principally by Group undertakings through borrowings. The Company has no employees.

Risk management

The financial risk management objectives and policies of the Company together with an analysis of the exposure to such risks, are set out in note 19 of the financial statements.

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

Performance

The Company's results for the year 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 at a Group level and reviewed by the Directors.

Future developments

The Company will continue with the leasing of its Class 380 rolling stock.

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 a 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

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 year but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company, their interests in the ultimate holding company are more fully described in note 21.

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 therefore managed on a group basis. Lenders to Eversholt Funding plc have imposed restrictions on the distribution of capital outside the Eversholt Rail Group.

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 (IFRS) 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 Rail (380) Limited

for the year ended 31 December 2012

We have audited the financial statements of Eversholt Rail (380) Limited for the year ended 31 December 2012 set out on pages 6 to 22. 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 Auditor

As explained more fully in the Statement of Directors' Responsibilities 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 profit 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			
Operating lease income		**17,155,267**	11,859,645
Maintenance fee income		**107,605**	116,572
Total revenue		**17,262,872**	11,976,217
Cost of sales	*4*	**(5,634,450)**	(4,481,759)
Gross Profit		**11,628,422**	7,494,458
Finance income	*5*	**117,183**	-
Finance expense	*6*	**(8,872,543)**	(6,674,731)
Administrative expense	*7*	**(337,214)**	(335,867)
Profit before tax		**2,535,848**	483,860
Income tax credit	*9*	**604,762**	656,597
Profit for the year		**3,140,610**	1,140,457

There were no discontinued or discontinuing operations during the year.

The notes on pages 10 to 22 form an integral 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 profit 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			
Property, plant and equipment	*11*	**185,936,835**	191,571,285
Current assets			
Loan receivable	*12*	**12,660,675**	-
Trade and other receivables		**54,167**	54,167
Current tax		**1,422,150**	11,695,666
		14,136,992	11,749,833
Total assets		**200,073,827**	203,321,118
Liabilities and equity			
Current liabilities			
Trade and other payables	*13*	**2,061,847**	2,067,825
Borrowings	*14*	**-**	127,088,069
		2,061,847	129,155,894
Non-current liabilities			
Borrowings	*14*	**178,208,598**	60,076,087
Deferred tax	*15*	**14,886,877**	12,706,648
Deferred revenue	*16*	**673,661**	280,255
		193,769,136	73,062,990
Total liabilities		**195,830,983**	202,218,884
Equity			
Share capital	*17*	**2**	2
Retained Earnings		**4,242,842**	1,102,232
Total equity		**4,242,844**	1,102,234
Total equity and liabilities		**200,073,827**	203,321,118

The notes on pages 10 to 22 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: 1139640

Statement of cash flows
for the year ended 31 December 2012

	2012 £	2011 £
Profit before tax	**2,535,848**	483,860
Adjustments for:		
- Depreciation charge	**5,634,450**	4,481,759
- Group relief received	**-**	1,611,954
Operating cash flows before changes in working capital	**8,170,298**	6,577,573
- Increase in deferred revenue	**393,407**	273,356
- Decrease in trade and other receivables	**-**	5,040,010
- (Decrease)/increase in trade and other payables	**(5,978)**	2,004,251
Cash flow generated by operating activities	**8,557,727**	13,895,190
Taxation received/(paid)	**13,058,507**	(6,344,605)
Net cash generated by operating activities	**21,616,234**	7,550,585
Cash flow from investing activities		
Acquisition of property, plant and equipment	**-**	(74,131,951)
Net cash utilised in investing activities	**-**	(74,131,951)
Cash flow from financing activities		
Movement in working capital loan account	**(18,612,430)**	(14,258,173)
Loans raised	**99,457,040**	102,886,099
Loans repaid	**(102,460,844)**	(22,046,560)
Net cash (utilised in)/generated by financing activities	**(21,616,234)**	66,581,366
Net decrease in cash and cash equivalents	**-**	-
Cash and cash equivalents at beginning of the year	**-**	-
Cash and cash equivalents at end of the year	**-**	-

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

	Share capital £	Retained earnings £	Total shareholders' equity £
Balance at 1 January 2011	2	(38,225)	(38,223)
Profit for the year	-	1,140,457	1,140,457
Balance at 31 December 2011	**2**	**1,102,232**	**1,102,234**
Profit for the year	-	3,140,610	3,140,610
Balance at 31 December 2012	**2**	**4,242,842**	**4,242,844**

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

1 General Information

Eversholt Rail (380) Limited (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 activity of the company is set out on page 2.

2 Basis of Preparation

These financial statements are presented in pound 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 Rail (380) Limited have been prepared on the historical cost basis. 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 of the Company 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 Rail (380) Ltd. 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 Company'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 on the Company's financial statements.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2012

2 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

2.2.3 IAS 16 Property, plant and equipment

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

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

2.3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

3 Summary of significant accounting policies

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

3.1 Finance 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 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.

3.1.1 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

Other borrowing costs are recognised in profit and loss in the period in which they are incurred.

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

3 Summary of significant accounting policies (continued)

3.2 Income tax

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

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

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.

3.3 Property, plant and equipment

In the normal course of business rolling stock and other railway assets are recognised at cost and are depreciated on a straight-line basis over their useful economic lives to their estimated residual value. The useful economic life depends on the class of vehicle and type of asset and ranges from 20 to 35 years. Useful lives and residual values are reviewed annually and if there is indication of impairment, a loss will be recognised to reduce the carrying value of the asset to its recoverable amount.

In relation to the construction of rolling stock and other railway assets:

i) Progress payments paid to third parties are capitalised.

ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the construction of rolling stock and other railway assets and accrue in respect of the period of construction.

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

The depreciation charge is included in the income statement as detailed in note 4.

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

At each reporting date, the Company reviews the carrying value of its rolling stock and railway assets to determine whether there is any indication that the assets have suffered an impairment loss. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised immediately in profit or loss.

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

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.

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. The Company holds the following classes of financial assets:

3.4.1.1 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.

3.4.1.2 Cash and cash equivalents

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

3.4.2 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.

3.4.3 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 asset have been affected.

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

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

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

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

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)

3.4.4 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.

3.4.5 Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

3.5 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 ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

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.

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 the Directors 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 depreciation.

Depreciation is recognised so as to write off the cost of assets over their useful lives. In making their judgement of the useful life, management have considered the effect of wear and tear and planned maintenance on the assets.

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

3 Summary of significant accounting policies (continued)

3.8 Maintenance income and costs

Following the industry standard and as acknowledged by legislation, heavy maintenance services are provided to successive lessees based on a whole-of-life model. Amounts received under these arrangements that relate to maintenance of future periods are included in other creditors. When maintenance services are performed, the cost of which will be recovered under these arrangements only in future periods, the future recoverable amount is included in prepayments. Revenue from maintenance services rendered is recognised when the services are provided. In all cases maintenance service costs are expensed as incurred.

3.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease income is recognised on a straight line basis over the lease term.

4 Cost of sales

	2012 £	2011 £
Depreciation	**(5,634,450)**	(4,481,759)

5 Finance income

	2012 £	2011 £
Interest received from Eversholt Rail (UK) Limited on working capital loan	**117,183**	-

6 Finance expense

	2012 £	2011 £
Interest payable to Eversholt Funding plc	**(8,181,990)**	(4,955,199)
Finance charges payable to Eversholt Funding plc	**(665,580)**	(1,215,029)
Interest payable to Eversholt Rail (UK) Limited	-	(503,889)
Sundry interest	**(24,973)**	(614)
	(8,872,543)	(6,674,731)

No borrowing costs have been capitalised during the year (31 December 2011: £1,861,309). The capitalised rate used is the rate of interest attaching to the Company's borrowings attributable to the construction of rolling stock.

7 Administrative expense

Administrative expenses include the following:

	2012 £	2011 £
Management Fees	**(325,000)**	(325,000)
Fees payable to the company's auditor for the audit of the company's annual accounts	**(8,214)**	(8,214)
Fees payable to the company's auditor and its associates for other services		
- Other services pursuant to legislation	**(4,000)**	-

The Company has no employees and hence no staff costs (year ended 31 December 2011: nil).

8 Directors' emoluments

The Directors have been paid by another group undertaking. No specific charge has been made to the Company in this regard.

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

9 Income tax credit

	2012	2011
Current tax	**£**	**£**
UK corporation tax on current year profit	**2,783,652**	11,695,666
Adjustment in respect of prior year	**1,339**	1,611,954
	2,784,991	13,307,620
Deferred tax		
Origination and reversal of temporary differences		
- Current year	**(2,180,229)**	(11,082,444)
- Prior year	**-**	(1,568,579)
	(2,180,229)	(12,651,023)
Total income tax credit	**604,762**	656,597

The following table reconciles the tax credit which would apply if all 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%)	**(621,213)**	(128,223)
Adjustment in respect of prior year	**1,339**	43,375
Change in tax rate	**1,224,636**	741,445
Income tax credit	**604,762**	656,597

10 Dividends

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

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

11 Property, plant and equipment

	Assets in the course of construction £	Rolling stock and other railway assets £	Total £
Cost			
Balance at 1 January 2011	72,894,489	49,153,400	122,047,889
Additions	74,131,951	-	74,131,951
Transfers	(147,026,440)	147,026,440	-
Balance at 31 December 2011 and December 2012	**-**	**196,179,840**	**196,179,840**
Depreciation			
Balance at 1 January 2011	-	126,796	126,796
Charge for the year	-	4,481,759	4,481,759
Balance at 31 December 2011	**-**	**4,608,555**	**4,608,555**
Charge for the year	-	5,634,450	5,634,450
Balance at 31 December 2012	**-**	**10,243,005**	**10,243,005**
Carrying value at 31 December 2012	**-**	**185,936,835**	**185,936,835**
Carrying value at 31 December 2011	-	191,571,285	191,571,285

All assets have been pledged to secure borrowings of the Group. The Company is not permitted to pledge these assets as security for other borrowings and is restricted in its ability to dispose of its assets. The assets are secured by a fixed charge held by the financial institutions that have lent to Eversholt Funding plc.

12 Loan Receivables

	2012	2011
Current		
Eversholt Rail (UK) Limited	**12,660,675**	-

The loan to Eversholt Rail (UK) Limited is unsecured, has no fixed date for repayment and is therefore technically repayable on demand. This loan is interest free

13 Trade and other payables

	2012 £	2011 £
Trade payables	**294,230**	294,230
Accruals	**2,236**	8,214
Rentals received in advance	**1,765,381**	1,765,381
	2,061,847	2,067,825

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

14 Borrowings

	Current	Non - current	Total
31 December 2012			
Eversholt Funding plc	-	178,208,598	178,208,598
31 December 2011			
Eversholt Rail (UK) Limited	5,951,755	-	5,951,755
Eversholt Funding plc	121,136,314	60,076,087	181,212,401
	127,088,069	60,076,087	187,164,156

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

The loan from Eversholt Funding plc is repayable in line with the repayment terms on Eversholt Funding plc's own external debt. According to these terms, nothing is repayable on demand (31 December 2011: £121,136,314). £18,675,471 is repayable in 2016, (31 December 2011: £0). £16,384,387 is repayable in 2020, (31 December 2011: £16,384,387). £21,845,850 is repayable in 2025, (31 December 2011 £21,845,850). £21,845,850 is repayable between 2021 and 2035, (31 December 2011: £21,845,850). £99,457,040 is repayable in 2036, (31 December 2011: £0).

Interest is payable at rates varying between Libor plus 2.33% and 6.7% per annum (31 December 2011: 5.8% to 6.7%) per annum.

15 Deferred tax

	2012 £	2011 £
Leasing transactions temporary differences:		
Balance at beginning of the year	**12,706,648**	55,625
Income statement charge	**2,180,229**	12,651,023
Balance at end of the year	**14,886,877**	12,706,648

Leasing transactions temporary differences relate principally to accelerated capital allowances and depreciation.

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

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

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

16 Deferred revenues

	2012 £	2011 £
Dry lease maintenance reserve	**673,661**	280,255

17 Share capital

	2012 £	2011 £
Authorised, allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	**2**

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

18 Capital commitments

At the reporting date, the Company had not entered into any contractual commitments for the acquisition of property, plant and equipment.

19 Risk management

Exposure to residual value risk, credit risk, liquidity risk and market risk arises in the normal course of the Company's business. The policies for managing all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements are described in this note.

Residual value risk

A significant part of the Company's return from operating leases is dependent upon its management of residual value risk. This risk arises from operating lease transactions to the extent that the values recovered from re-letting assets at the end of the lease terms (the "residual values") differ from those projected at the inception of the leases. The Company regularly monitors residual value exposure by reviewing the recoverability of the residual value projected at lease inception. This entails considering the potential to re-let at the end of their current lease terms. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

The asset engineering team regularly visit the operating depot for the purpose of vehicle inspection and technical investigation. The Company has an excellent knowledge of the current condition of the fleet. The Company has developed a specialist in-house inspection team who consider whole-life vehicle management; all vehicles are subject to a periodic inspection regime that delivers targeted inspections based on risk analysis.

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2012

19 Risk management (continued)

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. It arises principally from lease receivables.

The 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.

No lease receivables are past their due date.

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 will borrow funds to meet any shortfall. Conversely, the Company lends any surplus funds to other Group entities.

The Company's assets, net of deferred tax, are funded principally by borrowings from other Group entities.

Undiscounted cash flows from the company's assets and 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						
- Loans and receivables	12,660,675	12,660,675	12,660,675			
- Trade and other receivables	54,167	54,167	-	54,167	-	-
- Current taxation	1,422,150	1,422,150	-	1,422,150	-	-
	14,136,992	14,136,992	12,660,675	1,476,317	-	-
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	(2,061,847)	(2,061,847)	-	(2,061,847)	-	-
- Borrowings	(178,208,598)	(350,387,629)	-	(9,277,820)	(58,867,421)	(282,242,388)
	(180,270,445)	(352,449,476)	-	(11,339,667)	(58,867,421)	(282,242,388)
Total financial instruments	(166,133,452)	(338,312,484)	12,660,675	(9,863,350)	(58,867,421)	(282,242,388)

	Carrying value	Contractual cash flows	Due on demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£	£	£	£	£	£
31 December 2011						
Financial assets						
Loans and receivables						
- Trade and other receivables	54,167	54,167	-	54,167	-	-
- Current taxation	11,695,666	11,695,666	-	11,695,666	-	-
	11,749,833	11,749,833	-	11,749,833	-	-
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	(2,067,825)	(2,067,825)	-	(2,067,825)	-	-
- Borrowings	(187,164,156)	(239,755,070)	(127,088,071)	(3,817,999)	(15,240,703)	(93,608,297)
	(189,231,981)	(241,822,895)	(127,088,071)	(5,885,824)	(15,240,703)	(93,608,297)
Total financial instruments	(177,482,148)	(230,073,062)	(127,088,071)	5,864,009	(15,240,703)	(93,608,297)

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

19 Risk management (continued)

Liquidity risk management (continued)

The Company has granted security over all of its assets to enable a fellow group undertaking to obtain external financing by way of bonds and loans.

Intercompany loans with a carrying value of £159,533,127 (31 December 2011:£60,076,087) have a fair value of £173,637,977 (31 December 2011: £66,820,572) 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).

Market risk management

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

The Company has exposure to fluctuations in interest rates. This exposure is managed at a Group level through the use of interest rate swaps. The cost or benefit derived from the use of swaps is taken into account in determining the interest charged on loans to and from other Group entities.

Interest rate sensitivity analysis

The impact of a 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £35,563 on variable rate debt; this would be offset by an increase in intercompany working capital interest received of £24,902.

20 Operating lease arrangement

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

	2012	**2011**
	£	**£**
Within one year	**17,653,805**	17,653,805
2-5 years	**70,615,220**	70,615,220
Over 5 years	**158,884,244**	176,538,049
	247,153,269	264,807,074
Aggregate operating lease rentals receivable in the year	**17,155,267**	11,859,645

21 Related-party transactions

21.1 Identity of related parties

The Company has a related party relationship with its directors (refer page 3) and with other entities in the Eversholt Rail Group, namely:

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

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

21 Related-party transactions (continued)

21.1 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 Rail Holdings (UK) Limited. The results of the Company are 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
Harcourt Centre
Harcourt Road
Dublin 2
Ireland

21.2 Transactions with related parties

The Company has entered into the following transactions with related parties:

Loan accounts more fully described in note 12 and 14. Interest incurred on these loans is disclosed in note 5 and 6.

£325,000 of management fees payable to Eversholt Rail (UK) Ltd were incurred (year ended 31 December 2011: £325,000).

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

22 Contingent liabilities

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

23 Subsequent events

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