European Rail Finance (GB) Limited

Annual Financial Statements
for the year ended 31 December 2011

Registered No: 2720809

Annual Financial Statements
for the year ended 31 December 2011

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Directors' report

for the year ended 31 December 2011

Principal activities

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 26.

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

Business review

The Company continued the finance and operating leases that were written in previous years.

Eversholt Rail (UK) Limited, a subsidiary company, provides asset management and administrative services to the Company, charging an annual management fee.

The business continues to be funded principally by group undertakings through borrowings. The Company has no employees.

Risk management

The Company has established financial risk management objectives and policies. These objectives, together with an analysis of the exposure to such risks, are set out in note 24 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 if that value is below the current book value and therefore an impairment provision might be needed.

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 determined at the inception of the lease transactions. Monthly management accounts are prepared 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 period ended 31 December 2011 (31 December 2010: nil). Dividend payments will be reflected in the financial statements in the period in which they are declared.

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 2011

Directors

The Directors who served during the year were as follows:

Name

P Gough
M B Kenny
N King
R Mani
S F Purves
J B Watt
P J White
J M Wilmot
G C Love (appointed 22 February 2011)

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 interest in the share capital of the Company, their interest in the holding company is more fully described in note 26.

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.

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

Disclosure of information to auditors

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.

Auditors

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.

Directors' responsibility and approval of the annual financial statements
for the year ended 31 December 2011

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 5, is made with a view to distinguishing, for the shareholder, the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are responsible for preparing the Directors' Report and 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, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

The financial statements are required by law to present fairly the financial position and the performance of the Company; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors are responsible for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Company's annual financial statements were approved by the Board of Directors on 10 February 2012 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 European Rail Finance (GB) Limited

for the year ended 31 December 2011

We have audited the financial statements of European Rail Finance (GB) Limited for the year ended 31 December 2011 set out on pages 6 to 25. 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 (APB'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 APB's web site at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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

10 February 2012

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Income statement
for the year ended 31 December 2011

	Notes	2011 £	2010 £
Revenue			
Operating lease income		**214,247,473**	178,331,236
Finance lease income		**667**	5,575
Total income		**214,248,140**	178,336,811
Cost of sales	4	**(203,271,588)**	(172,781,653)
Gross Profit		**10,976,552**	5,555,158
Finance income	5	**169,087**	-
Finance expense	6	**(3,642,874)**	(777,501)
Administrative expense	7	**(2,738,798)**	(2,066,722)
Gain on disposal of property, plant and equipment		**203,000**	105,021
Profit before tax		**4,966,967**	2,815,956
Income tax credit	9	**4,329,033**	2,396,711
Profit for the year		**9,296,000**	5,212,667

There were no discontinued or discontinuing operations during the period.

Statement of comprehensive income
for the year ended 31 December 2011

There has been no comprehensive income or expense other than the profit for the year as shown above (2010: nil).

Statement of financial position
for the year ended 31 December 2011

	Notes	2011 £	2010 £
Assets			
Non-current assets			
Property, plant and equipment	11	**235,024,785**	254,565,045
Trade and other receivables	12	**8,276,886**	11,365,598
Investment in subsidiaries	13	**34,348,449**	34,348,449
		277,650,120	300,279,092
Current assets			
Finance lease receivables	14	**29,081**	48,238
Loans receivable	15	**19,155,967**	-
Trade and other receivables	12	**2,157,148**	339,166
		21,342,196	387,404
Total assets		**298,992,316**	300,666,496
Liabilities and equity			
Current liabilities			
Trade and other payables	16	**17,477,910**	14,270,519
Current tax		**14,425,198**	9,989,419
Borrowings	17	**57,903,864**	72,181,178
Deferred revenue	20	**9,015,024**	-
Provisions	18	**100,000**	201,000
		98,921,996	96,642,116
Non-current liabilities			
Borrowings	17	**42,441,562**	28,799,827
Deferred tax	19	**65,438,442**	91,475,702
Provisions	18	**-**	100,411
Deferred revenue	20	**27,684,533**	28,438,657
		135,564,537	148,814,597
Total liabilities		**234,486,533**	245,456,713
Equity			
Share capital	21	**50,000,002**	50,000,002
Retained earnings		**14,505,781**	5,209,781
Total equity		**64,505,783**	55,209,783
Total equity and liabilities		**298,992,316**	300,666,496

The financial statements were approved by the board of directors and authorised for issue in 10 February 2012. They were signed on its behalf by:

S F Purves
Director

Company registration number 2720809

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 £	2010 £
Cash flow generated by operating activities	22	**42,235,880**	55,248,073
Income tax paid		**(17,272,449)**	(6,005,481)
Net cash generated by operating activities		**24,963,431**	49,242,592
Investing activities			
Acquisition of property, plant and equipment		**(5,268,406)**	(3,740,061)
Proceeds from disposal of property, plant and equipment		**203,000**	105,021
Investment in subsidiaries		**-**	(34,348,449)
Acquisition of assets from other group undertakings		**-**	(267,644,385)
Payment on assumption of liabilities from other group undertakings		**-**	110,581,251
Net cash utilised by investing activities		**(5,065,406)**	(195,046,623)
Financing activities			
Loans raised		**8,824,896**	95,804,031
Loans repaid		**(28,722,921)**	-
Proceeds on issue of share capital		**-**	50,000,000
Net cash (utilised in)/generated by financing activities		**(19,898,025)**	145,804,031
Net decrease in cash and cash equivalents		**-**	-
Cash and cash equivalents acquired		**-**	-
Cash and cash equivalents carried forward		**-**	-

Statement of changes in equity
for the year ended 31 December 2011

	Share capital £	Retained earnings £	Total shareholders' equity £
Balance at 1 January 2010	2	(2,886)	(2,884)
Share capital issued	50,000,000		50,000,000
Profit for the year	-	5,212,667	5,212,667
Balance at 31 December 2010	**50,000,002**	**5,209,781**	**55,209,783**
Profit for the year	**-**	**9,296,000**	**9,296,000**
Balance at 31 December 2011	**50,000,002**	**14,505,781**	**64,505,783**

Notes to the Annual Financial Statements
for the year ended 31 December 2011

1 General Information

European Rail Finance (GB) Limited is a company incorporated in England and Wales under the Companies Act. 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 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 European Rail Finance (GB) 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 any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the year ended 31 December 2011 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 2011 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.

The Company is exempt from the requirement to prepare consolidated financial statements by virtue of Section 400 of the Companies Act 2006. The financial statements present information about the company as an individual undertaking.

2.2 Standards and Interpretations issued by the IASB

At 31 December 2011 a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the financial statements of European Rail Finance (GB) Limited. These include the following Standards which are relevant to the Company's financial statements:

2.2.1 IFRS 9 Financial Instruments

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9'). This introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 dealing with financial liabilities. These represent the first instalments in the IASB's planned phased replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments. In August 2011 the IASB issued an exposure draft proposing to change the effective date of the statement to periods beginning on or after 1 January 2015 rather than 1 January 2013 as is currently indicated in the Standard. IFRS 9 is subject to EU endorsement, the timing of which is uncertain. Accordingly, ERG is unable to provide a date by which it plans to apply IFRS 9. The next steps in the IASB's project will address the impairment of financial assets measured at amortised cost and hedge accounting. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's financial instruments project. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

2 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

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.

2.2.3 IAS 1 Presentation of Financial Statements

The amendment to IAS 1 requires items that may be reclassified to the profit and loss section of the income statement to be grouped together in the Statement of other comprehensive income to facilitate the assessment of their impact on the overall performance of the Company. This amendment is effective for the annual periods beginning on or after 1 July 2012 and is not expected to have an impact on the current presentation of 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 Interest income and expense

Interest 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 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 2011

3 Summary of significant accounting policies (continued)

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 profit 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.

3.4 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 an 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 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 balance sheet 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 impaired loss is recognised immediately in profit or loss.

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

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

3. Summary of significant accounting policies (continued)

3.5 Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. The Company's investments in subsidiaries are stated at cost less any impairment losses. Any impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the investment in subsidiary's recoverable amount since the last impairment loss was recognised.

3.6 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.

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':

3.6.1 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.

3.6.2 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.

3.6.3 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 investment have been affected.

3.6.4 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.

3.6.5 Offsetting financial assets and financial liabilities

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

3. Summary of significant accounting policies (continued)

3.6.6 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.

3.7 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.

3.8 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.

3.9 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 depreciation.

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

3.10 Maintenance income and costs

The non-capital element of rentals ('maintenance income') is deferred to the extent that it relates to future maintenance costs. These costs are based on the expected maintenance costs over the lease period.

Maintenance costs are written off when incurred except to the extent that they will be recovered by maintenance income which will be received in future periods.

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

3. Summary of significant accounting policies (continued)

3.11 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.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a contract periodic rate of return on the Company's net investment outstanding in respect of the leases.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of financial position as finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

3.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The provision is recognised as the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

4 Cost of sales

	2011 £	2010 £
Operating lease rental	**(125,543,819)**	(105,487,712)
Depreciation	**(24,808,666)**	(21,932,530)
Maintenance cost	**(52,963,586)**	(45,361,411)
Provision for design and endemic faults	**44,483**	-
	(203,271,588)	(172,781,653)

5 Finance income

	2011 £	2010 £
Interest receivable from Eversholt Rail (UK) Ltd	**169,087**	-

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

6 Finance expense

	2011 £	2010 £
Interest payable to Eversholt Rail (UK) Ltd	-	(23,463)
Interest payable to Eversholt Funding Plc	**(3,058,594)**	(379,988)
Finance charges payable to Eversholt Funding Plc	**(476,247)**	(12,885)
Other Interest	**(108,033)**	(52,963)
Other finance charges	-	(308,202)
	(3,642,874)	(777,501)

7 Administrative expense

Administrative expenses include the following:

	2011 £	2010 £
Management fees	**(2,450,000)**	(2,041,667)
Audit fees in respect of 2011 audit	**(15,607)**	-

The Company has no employees and hence no staff costs (year ended 31 December 2010: nil)

During the prior year, audit fees were paid by another Group entity.

8 Directors' emoluments

Certain directors have been remunerated by Eversholt Rail (UK) Limited. No specific charge has been made to the Company in this regard.

9 Income tax credit

	Note	2011 £	2010 £
Current tax			
Tax on current year profit		**(21,723,961)**	(15,993,346)
Adjustments in respect of prior years		**15,734**	(4,240)
Total current tax		**(21,708,227)**	(15,997,586)
Deferred tax			
Origination and reversal of temporary differences		**26,051,583**	18,390,057
Adjustment in respect of prior years		**(14,323)**	4,240
Total deferred tax	*19*	**26,037,260**	18,394,297
Income tax credit		**4,329,033**	**2,396,711**

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

	2011 £	2010 £
Taxation at corporation tax rate of 26.5% (year ended 31 December 2010: 28%)	**(1,316,246)**	(788,468)
Change in tax rate	**5,643,868**	3,185,179
Adjustment in respect of prior period liabilities	**1,411**	-
Income tax credit	**4,329,033**	2,396,711

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

10. Dividends

For the year ended 31 December 2011 no dividend has been paid or declared (year ended 31 December 2010 : nil).

11. Property, plant and equipment

	Rolling stock and other railway assets £
Cost	
Balance at 1 January 2010	5,015,144
Additions	3,838,046
Acquisition from other group undertakings	267,644,385
Balance at 31 December 2010	276,497,575
Additions	5,268,406
Balance at 31 December 2011	281,765,981
Depreciation	
Balance at 1 January 2010	-
Charge for the year	21,932,530
Balance at 31 December 2010	21,932,530
Charge for the year	24,808,666
Balance at 31 December 2011	46,741,196
Net carrying value	
Carrying value at 31 December 2011	235,024,785
Carrying value at 31 December 2010	254,565,045

During the year assets were disposed of for £203,000 (year ended 31 December 2010: £105,021). These assets had a carrying value of nil.

The cost of tangible fixed assets at 31 December 2011 includes capitalised interest of £219,608 (year ended 31 December 2010:£113,129).The capitalisation rate used is the rate of interest attaching to the Company's borrowings attributable to the acquisition of rolling stock.

Rolling stock has 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 sell them.

12 Trade and other receivables

	2011 £	2010 £
Receivable no later than one year:		
Trade receivables	**1,748,814**	339,166
Prepayments	**408,334**	-
	2,157,148	339,166
Receivable later than one year:		
Maintenance prepayment	**8,276,886**	11,365,598

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

13 Investments in subsidiaries

	2011 £	2010 £
Cost		
At 1 January	**34,348,449**	-
Additions	**-**	34,348,449
At 31 December	**34,348,449**	34,348,449

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2011	Ownership Percentage 2010
Eversholt Rail Holdings (UK) Limited	Ordinary Shares	England	Investment	100	100
Eversholt Rail (UK) Limited*	Ordinary Shares	England	Management support	100	100
Eversholt Depot Finance (UK) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (365) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (380) Limited*	Ordinary Shares	England	Leasing	100	100

**Indirect subsidiaries*

14 Finance lease receivables

	2011 £	2010 £
Gross investment in finance leases		
Amounts falling due:		
No later than one year	**29,912**	21,740
Later than one year and no later than five years	**-**	29,912
Gross investment in finance leases	**29,912**	51,652
Unearned finance income	**(831)**	(3,414)
Net investment in finance leases	**29,081**	48,238
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	**29,081**	19,157
Later than one year and no later than five years	**-**	29,081
Present value of minimum lease receivables	**29,081**	48,238
Fair value of amounts receivable under finance leases	**28,707**	47,746
Aggregate finance lease rentals receivable in the year	**21,740**	21,731

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

14 Finance lease receivables (continued)

Finance lease receivables are accounted for as loans and receivables at cost.

The fair value of floating rate finance lease receivables is not considered to be significantly different from the carrying value.

The fair value of fixed rate finance lease receivables is calculated by discounting future minimum lease receivables, using equivalent current interest rates.

The maximum exposure to credit risk of finance lease receivables for the current and prior periods is the carrying amount. The finance lease receivables are not past due and not impaired in the current and prior period.

15 Loan Receivables

	2011	2010
	£	£
Eversholt Rail (UK) Limited	**19,155,967**	-

The loan to 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%.

16 Trade and other payables

	2011	2010
	£	£
Rentals received in advance	**11,411,240**	-
Trade payables	**1,703,343**	2,851,463
Other payables	**68,196**	1,022,968
Value added tax	**4,295,131**	10,396,088
	17,477,910	**14,270,519**

17 Borrowings

	Current	Non-current	Total
31 December 2011	£	£	£
Eversholt Funding Plc	**23,555,415**	**37,221,954**	**60,777,369**
Eversholt Investment Limited	**9,348,449**	-	**9,348,449**
European Rail Finance Holdings Limited	**25,000,000**	-	**25,000,000**
Other loan	-	**5,219,608**	**5,219,608**
	57,903,864	**42,441,562**	**100,345,426**
31 December 2010			
Eversholt Rail (UK) Limited	9,566,954	-	9,566,954
Eversholt Funding Plc	28,265,775	23,686,698	51,952,473
Eversholt Investment Limited	9,348,449	-	9,348,449
European Rail Finance Holdings Limited	25,000,000	-	25,000,000
Other loan	-	5,113,129	5,113,129
	72,181,178	28,799,827	100,981,005

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

17 Borrowings (continued)

The loans from Eversholt Funding Plc are repayable in line with the repayment terms on Eversholt Funding Plc's own external debt. According to these terms, £23,555,415 is payable on demand (31 December 2010: £28,265,775), £10,151,442 is repayable in 2020, (31 December 2010: £10,151,442) £13,535,256 is repayable in 2025 (31 December 2010: £13,535,256) £13,535,256 is repayable between 2021 and 2035.

The loans from Eversholt Investment Limited and European Rail Finance Holdings Limited are unsecured, interest free, have no fixed repayment terms and are therefore considered technically repayable on demand.

The loan from Eversholt Rail (UK) Limited, has no fixed date for repayment and is therefore technically repayable on demand. Interest is charged at Libor plus 1.75% (31 December 2010: Libor plus 2.25%).

18 Provisions

	2011	2010
	£	£
Payable no later than one year:		
Engineering costs	**100,000**	201,000
Payable later than one year and not later than five years:		
Engineering costs	-	100,411
	100,000	301,411

Provision for engineering costs relates to the cost of endemic faults to rolling stock. The projects to rectify these faults are ongoing and are expected to be completed within the next year.

	2011	2010
	£	£
Balance at beginning of the year	**301,411**	-
Acquired from other group undertakings	-	719,072
Utilised	**(156,928)**	(417,661)
Provision revised	**(44,483)**	-
At 31 December	**100,000**	301,411

19 Deferred tax liability

	2011	2010
	£	£
Leasing transactions temporary differences:		
Balance at beginning of the year	**91,475,702**	7,820
Income statement credit	**(26,037,260)**	(18,394,297)
Arising on assets acquired from other group undertaking	-	109,862,179
Balance at end of the year	**65,438,442**	91,475,702

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

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

19 Deferred tax liability (continued)

A number of changes to the UK Corporation tax system were announced in June 2010 and March 2011. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. The Finance (No.3) Act 2010 amended the effective rate from 1 April 2011 to 26% and amended the main rate of corporation tax to 25% effective from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate to 23% by 1 April 2014.

Since only the change in the rate to 25% had been substantively enacted at the statement of financial position date, only the effect of this change is taken into account.

20 Deferred Revenue

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

	2011	2010
	£	£
Due within one year:		
Arising in respect of maintenance	**9,015,024**	-
Due later than one year:		
Arising in respect of maintenance	**27,684,533**	28,438,657

The deferred revenue arises in respect of the Company obligations in respect of maintenance contracts in certain leases.

21 Share capital

	2011	2010
	£	£
50,000,002 Ordinary shares of £1 each	**50,000,002**	50,000,002

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

22 Note to the cash flow statement

	2011	2010
	£	£
Profit before tax	**4,966,967**	2,815,956
Adjustments for:		
- Depreciation charge	**24,808,666**	21,932,530
- Profit on disposal of property, plant and equipment	**(203,000)**	(105,021)
- Interest accrual	**106,479**	-
- Utilisation of design and endemic provision	**(156,928)**	(417,661)
- Reversal of Provision for design and endemic expenditure	**(44,483)**	-
Operating cash flows before changes in working capital	**29,477,701**	24,225,804
Decrease in finance lease receivable	**19,157**	17,856
Decrease/(increase) in trade and other receivables	**1,270,731**	(11,704,764)
Increase in deferred revenue	**8,260,900**	-
Increase in trade and other payables	**3,207,391**	42,709,177
Cash generated by operating activities	**42,235,880**	55,248,073

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

23 Capital commitments

	2011	2010
	£	£
In respect of capital expenditure:	5,959,063	-

These commitments include £5,905,110 of retention payments in connection with the acquisition of the Class 395 fleet

24 Risk management

Exposure to residual value risk, credit risk, liquidity risk and market risk arise 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.

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 maximising the return to stakeholders through the optimisation of the debt to equity ratio.

The Company is not subject to any externally imposed capital requirement. Consideration is given to the cost and risks associated with each class of capital to maximise the return to the stakeholders through the optimisation of services of debt and debt to equity ratio.

Exposure to credit risk, liquidity risk, residual value risk and market risk arise 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.

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 process 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 borrows funds from another Group entity to meet any shortfall. Conversely, the Company lends any surplus funds to other Group entities.

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

24. Risk management (continued)

Liquidity risk management (continued)

Undiscounted cash flows from the Company's 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 2011						
Financial assets						
Loans and receivables						
- Finance lease receivables	29,081	29,081	-	29,081	-	-
- Loans receivable	19,155,967	19,155,967	19,155,967	-	-	-
- Trade and other receivables	10,434,034	10,434,034	-	10,434,034	-	-
	29,619,082	29,619,082	19,155,967	10,463,115	-	-
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	(17,477,910)	(17,477,910)	-	(17,477,910)	-	-
- Current taxation	(14,425,198)	(14,425,198)	-	(14,425,198)	-	-
- Borrowings	(100,345,426)	(132,929,715)	(57,903,863)	(2,365,557)	(9,442,838)	(63,217,457)
	(132,248,534)	(164,832,823)	(57,903,863)	(34,268,665)	(9,442,838)	(63,217,457)
Total financial instruments	(102,629,452)	(135,213,741)	(38,747,896)	(23,805,550)	(9,442,838)	(63,217,457)
31 December 2010						
Financial assets						
Loans and receivables						
- Finance lease receivables	48,238	48,238	-	19,157	29,081	-
- Trade and other receivables	11,704,764	11,704,764	-	11,704,764	-	-
	11,753,002	11,753,002	-	11,723,921	29,081	0
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	(14,270,517)	(14,270,517)		(14,270,517)		
- Current taxation	(9,989,419)	(9,989,419)		(9,989,419)		
- Borrowings	(100,981,005)	(119,825,213)	(72,181,178)	(1,452,638)	(5,814,530)	(40,376,867)
	(125,240,941)	(144,085,149)	(72,181,178)	(25,712,574)	(5,814,530)	(40,376,867)
Total financial instruments	(113,487,939)	(132,332,147)	(72,181,178)	(13,988,653)	(5,785,449)	(40,376,867)

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2011 and 31 December 2010.

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

24. Risk management (continued)

Market risk management

The Company is not directly 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 cash benefit derived from the use of swaps is taken into account in determining the interest charged on loans to and from other Group entities.

25. Operating lease commitment

The group as lessor

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

	2011 £	2010 £
Within one year	**167,500,996**	188,501,214
2-5 years	**268,279,222**	521,617,699
Over 5 years	**2,293,975**	17,139,081
	438,074,193	727,257,994
Aggregate operating lease rentals receivable in the year	**161,510,053**	133,141,258

Future minimum lease payments payable to group undertaking under non-cancelled operating lease:

	2011 £	2010 £
No later than one year	**99,056,753**	149,150,711
Later than one year and no later than five years	**158,461,310**	386,708,884
Later than five years	**2,038,856**	11,498,909
	259,556,919	547,358,504
Aggregate operating lease rentals payable during the year	**125,543,819**	105,487,712

26. Related-party transactions

26.1 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
- Eversholt Investment Limited
- European Rail Finance Limited
- Eversholt Rail Holdings (UK) Limited
- Eversholt Finance Holdings Limited
- Eversholt Funding Plc
- Eversholt Rail (UK) Limited
- Eversholt Depot Finance (UK) Limited
- Eversholt Rail (380) Limited
- Eversholt Rail (365) Limited

Notes to the Annual Financial Statements (continued)
for the year ended 31 December 2011

26. Related-party transactions (continued)

26.1 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 European Rail 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:

Regus House
Harcourt Centre
Harcourt Road
Dublin 2
Ireland

26.2 Transactions with related parties

The Company has loans with related parties, more fully described in notes 15 and 17. Interest on the loans is more fully described in notes 5 and 6.

The Company paid management fees to Eversholt Rail (UK) Ltd of £2,450,000 (year ended 31 December 2010: £2,041,667).

The Company leases assets from European Rail Finance Limited. The operating lease expense of £125,543,819 is included in cost of sales (year ended 31 December 2010: £105,487,712)

The Company has paid Eversholt Rail (UK) Ltd £52,963,587 for the procurement of maintenance of the rolling stock. (year ended 31 December 2010: £45,361,411)

Included in trade and other payables is a prepayment to Eversholt Rail (UK) Limited of £408,333 (year ended 31 December 2010: nil)

The Directors held the following interests in Eversholt Investment Group (Luxembourg) SarL:-

	Preferred Equity Certificates			Ordinary Shares
	Subscribed	**Redeemed**	**Held at 31 December 2011**	**Subscribed and held at 31 December 2011**
G C Love	174,214	10,948	163,266	786
M B Kenny	199,675	12,548	187,127	901
S F Purves	147,982	9,299	138,683	667

27. Contingent liabilities

There were no contingent liabilities for the Company at 31 December 2011.

28. Subsequent events

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