Eversholt Funding plc

Annual Financial Statements
for the year ended 31 December 2011

Registered No: 7329930

Annual Financial Statements
for the year ended 31 December 2011

Contents

Directors' report
for the year ended 31 December 2011

Principal activities

The Company was incorporated and is domiciled in England and Wales. The Company forms part of the Eversholt Rail Group ("ERG" or "Group") more fully described in note 19.

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

Business review

During the year, the Company has issued a bond of £400 million, which enabled the Company to repay £398.4 million on one of its short term bank facilities.

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

Subsequent Events

No material fact or circumstance has occurred between the reporting date, being 31 December 2011 and the date of this report.

Risk management

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

These objectives, together with an analysis of the exposure to such risks, are set out in Note 18 of the financial statements.

The principal business risks for the Company are market risk and liquidity risk. The market risk arises from exposure to interest rate fluctuations on variable interest bank debt. This risk is managed by means of interest rate swaps which, for the current year, have the effect of fixing interest rates on the majority of the debt.

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

Performance

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

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

Future developments

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the period ended 31 December 2011 (31 December 2010: nil).

Going concern basis

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

Directors report (continued)

for the year ended 31 December 2011

Directors

The Directors who served during the year were as follows:

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

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial period but have not been utilised by the Directors. The Directors have no interests in the share capital of the Company, interests in the holding company are more fully described in note 19.

Supplier payment policy

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

Capital management

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

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

Disclosure of information to 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 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, 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 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 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 Eversholt Funding plc
for the year ended 31 December 2011

We have audited the financial statements of Eversholt Funding plc for the year ended 31 December 2011 set out on pages 6 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

10 February 2012

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

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Income statement
for the year ended 31 December 2011

	Notes	2011 £	2010 £
Revenue			
Fee Income		**15,000**	2,500
Finance income	***4***	**89,816,304**	11,232,771
		89,831,304	11,235,271
Finance expenses	***5***	**(90,122,077)**	(11,419,533)
Net fair value (loss)/gain on Derivative financial instruments		**(70,307,015)**	6,614,263
		(70,597,788)	6,430,001
Administrative expense	***6***	**(57,248)**	(27,025)
Profit before tax		**(70,655,036)**	6,402,976
Income tax credit/(expense)	***8***	**17,666,768**	(1,751,844)
(Loss)/profit for the year		**(52,988,268)**	4,651,132

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 (31 December 2010: nil).

Statement of financial position
as at 31 December 2011

	Notes	2011 £	2010 £
Assets			
Non-current assets			
Deferred tax	10	**18,296,762**	-
Loan receivables	11	**1,099,999,998**	-
		1,118,296,760	
Current assets			
Loan receivables	11	**546,964,999**	1,533,448,844
Derivative financial instrument	12	-	14,707,325
Cash and cash equivalents	13	**13,112,641**	1,980,402
		560,077,640	1,550,136,571
Total assets		**1,678,374,400**	1,550,136,571
Liabilities and equity			
Current liabilities			
Trade and other payables	14	**49,005**	634,961
Current tax liability		**2,119,278**	262,560
Borrowings	15	**22,180,699**	51,181,692
Derivative financial instruments	12	**554,871**	9,242,062
		24,903,853	61,321,275
Non-current liabilities			
Borrowings	15	**1,629,125,504**	1,482,624,880
Derivative financial instruments	12	**72,632,179**	-
Deferred tax liability	10	-	1,489,284
		1,701,757,683	1,484,114,164
Total liabilities		**1,726,661,536**	1,545,435,439
Equity			
Share capital	16	**50,000**	50,000
(Accumulated deficit)/retained earnings		**(48,337,136)**	4,651,132
Total equity		**(48,287,136)**	4,701,132
Total equity and liabilities		**1,678,374,400**	1,550,136,571

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

S F Purves
Director

Company registration number: 7329930

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 £	2010 £
Cash generated by operating activities	*17*	**88,729,721**	12,992,207
Group relief		**(262,560)**	-
Realised gain on derivative financial instrument		**8,345,298**	
Net cash generated by operating activities		**96,812,459**	12,992,207
Investing activities			
Intra-group loans repaid		**192,865,200**	25,934,272
Intra-group loans made		**(320,176,814)**	(1,533,448,844)
Net cash utilised in investing activities		**(127,311,614)**	(1,507,514,572)
Financing activities			
Borrowings repaid		**(398,400,000)**	-
Borrowings raised		**511,901,154**	1,502,549,584
Finance expenses paid		**(71,869,760)**	(6,096,817)
Proceeds from issue of share capital		**-**	50,000
Net cash generated by financing activities		**41,631,394**	1,496,502,767
Net increase in cash and cash equivalents		**11,132,239**	1,980,402
Cash and cash equivalents at beginning of the year		**1,980,402**	-
Cash and cash equivalents at the end of year	*13*	**13,112,641**	1,980,402

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

	Called up share capital £	Accumulated deficit £	Total shareholders' equity £
Share capital issued	50,000	-	50,000
Profit for the period	-	4,651,132	4,651,132
Balance at 31 December 2010	**50,000**	**4,651,132**	**4,701,132**
Loss for the year	-	(52,988,268)	(52,988,268)
Balance at 31 December 2011	**50,000**	**(48,337,136)**	**(48,287,136)**

Notes to the Annual Financial Statements

for the year ended 31 December 2011

1. General Information

Eversholt Funding plc is a company incorporated and domiciled in England and Wales.

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

2. Basis of Preparation

These financial statements are presented in 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 Funding plc have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 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 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.

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 Eversholt Funding plc. 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.

2.2.2 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.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

2. Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

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

3. Summary of significant accounting policies

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

3.1 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 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.

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

3.2 Fees and commission income

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

3.3 Income tax

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

Current tax is the tax expected to be payable on the taxable 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

3. Summary of significant accounting policies (continued)

3.3 Income tax (continued)

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 Financial instruments

3.4.1 Financial assets

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

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.

3.4.2 Loans and receivables

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

3.4.3 Cash and cash equivalents

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

3.4.4 Financial liabilities

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

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

3.4.5 Impairment of financial assets

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

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

3. Summary of significant accounting policies (continued)

3.4 Financial instruments (continued)

3.4.5 Impairment of financial assets (continued)

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

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

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

3.4.6 Offsetting financial assets and financial liabilities

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

3.4.7 Derivatives and hedge accounting

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

Derivatives are recognised initially, and are subsequently re-measured, at fair value. Derivatives are initially recognised at fair value at the date a derivative contract is entered into. The gain or loss resulting from remeasurements is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

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

In the normal course of business, the fair value of a derivative on initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Company recognises a trading profit or loss on inception of the derivative. If observable market data are not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the inputs become observable, or when the transaction matures or is closed out.

All gains and losses from changes in the fair value of any derivative that do not qualify for hedge accounting are recognised immediately in the income statement.

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.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

3. Summary of significant accounting policies (continued)

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 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.

3.8 Use of assumptions and estimates

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

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

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

4. Finance income

	2011	**2010**
	£	**£**
Interest from intra-group loan account	**89,816,240**	11,232,771
Interest on bank account	**64**	-
	89,816,304	11,232,771

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

5. Finance expenses

	2011	2010
	£	£
Interest payable on bank loan	**(13,704,559)**	(1,794,305)
Interest payable on derivative financial instrument	**(9,382,945)**	(1,246,729)
Interest payable to third parties	**-**	(4,663,540)
Interest payable on bonds	**(66,665,408)**	(3,528,411)
Interest payable on Eversholt Rail (UK) Limited	**(176,078)**	(68,767)
Fees payable	**(193,087)**	(117,781)
	(90,122,077)	(11,419,533)

6. Administrative expense

	2011	2010
Administrative expenses include the following:	£	£
Audit fees in respect of 2011 audit	**(9,857)**	-

During the prior year Auditors remuneration was paid by another Group entity, the Company has no employees and hence no staff costs.

7. Directors' emoluments

Non-executive directors

	2011	2010
	£	£
Director for fees	**22,486**	27,025

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

8. Income tax (credit)/expense

	Note	2011	2010
		£	£
Current tax			
UK Corporation tax on current year profit		**(2,119,278)**	(262,560)
Deferred tax			
Origination and reversal of temporary differences	*10*	**19,786,046**	(1,489,284)
Total income tax credit (expense)		**17,666,768**	(1,751,844)

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

	2011	2010
	£	£
Taxation at corporation tax rate of 26.5% (31 December 2010: 28%)	**18,723,585**	(1,792,833)
Change in tax rates	**(1,056,817)**	40,989
Income tax credit (expense)	**17,666,768**	(1,751,844)

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

9. Dividends

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

10. Deferred tax (asset)/liability

Deferred tax arises on timing differences of a derivative financial instrument

	2011 £	2010 £
Balance at beginning of the year/period	**1,489,284**	-
Income statement charge/(credit)	**(19,786,046)**	1,489,284
Balance at end of the year/period	**(18,296,762)**	1,489,284

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 rate effective from 1 April 2011 to 26% and announced the main rate of corporation tax of 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, the effect of this change only is included in these financial statements.

11. Loan Receivables

	2011 £	2010 £
Current		
European Rail Finance Limited	**367,905,820**	1,260,219,931
European Rail Finance (GB) Limited	**23,555,413**	51,952,473
Eversholt Rail (380) Limited	**121,136,316**	100,372,861
Eversholt Depot Finance (UK) Limited	**5,331,000**	19,398,906
Eversholt Rail Holdings (UK) Limited	**27,223,100**	100,341,706
Eversholt Rail (UK) Limited	**1,813,350**	1,162,967
	546,964,999	1,533,448,844
Non-current		
European Rail Finance Limited	**915,320,345**	-
European Rail Finance (GB) Limited	**37,221,954**	-
Eversholt Rail (380) Limited	**60,076,087**	-
Eversholt Depot Finance (UK) Limited	**14,156,498**	-
Eversholt Rail Holdings (UK) Limited	**73,225,114**	-
Eversholt Rail (UK) Limited	**-**	-
	1,099,999,998	-
	1,646,964,997	1,533,448,844

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

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

12. Derivative financial instruments

	2011	2010
Current	**£**	**£**
Forward exchange contracts - assets	**-**	14,707,325
Forward exchange contracts - liabilities	**554,871**	9,242,062
Non-current		
Forward exchange contracts - liabilities	**72,632,179**	-

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

During the year ended 31 December 2011, none of the swaps were designated in hedge accounting relationships. (31 December 2010: None)

The fair value of derivative financial instruments was based on market rates on 31 December 2011.

13. Cash and cash equivalents

Cash and cash equivalents are analysed as:

	2011	2010
	£	**£**
Bank balances	**13,112,641**	1,980,402

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

14. Trade and other payables

	2011	2010
	£	**£**
Fees and other payables accrued	**49,005**	**634,961**

15. Borrowings

	2011	2010
	£	**£**
Current		
Eversholt Rail (UK) Ltd	**12,138,811**	25,934,272
Bank loans	**-**	25,165,672
Interest accrued	**13,364,410**	5,322,716
Capitalised fees	**(3,322,522)**	(5,240,968)
	22,180,699	51,181,692
Non-current		
Bank loans	**546,950,000**	808,283,176
Bonds	**1,100,000,000**	700,000,000
Capitalised fees	**(17,824,496)**	(25,658,296)
	1,629,125,504	1,482,624,880
	1,651,306,203	1,533,806,572

15. Borrowings (continued)

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

The Bank loans are from a consortium of banks. £138 million is repayable and redrawn on each interest reset date, with a financial repayment date in December 2016. The remaining bank loans are fully repayable by 2nd December 2016. Interest on these loans is currently charged at Libor + 1.75%, the margin increases to a maximum of 2.5% over the term.

None of the bonds are puttable. £300 million of the bonds are repayable in 2020 and pay a fixed rate semi-annual coupon of 5.8% per annum £400 million of bonds are repayable in 2025 and pay a fixed rate semi-annual coupon 6.4% per annum. £400 million of the Bonds are repayable between 2021 and 2035 and pay a fixed rate semi-annual coupon of 6.7%.

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

The Company has granted security over all of its assets to enable it to secure this financing.

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

16. Share capital

	2011	2010
	£	£
Authorised, allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	**50,000**	**50,000**

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

17. Notes to the cash flow statement

	2011	2010
	£	£
(Loss)/profit before tax	**(70,655,036)**	6,402,976
Interest expense	**79,911,454**	11,419,533
Amortisation of capitalised finance charges	**14,607,573**	-
Capitalisation of borrowing costs	**(4,855,328)**	-
Unrealised loss/ (gain) on fair value adjustment of derivative financial instruments	**70,307,014**	(5,465,263)
Operating cash flows before changes in working capital	**89,315,677**	12,357,246
Adjustments for:		
- Increase/(decrease) in trade and other payables	**(585,956)**	634,961
Cash generated by operating activities	**88,729,721**	12,992,207

18. Risk management

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

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

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

18. Risk management (continued)

Capital risk management

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

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

The Board reviews the capital structure on a semi-annual basis and reviews capital distribution. As part of this review and the Board considers cost of capital and the risks associated with each class of capital. The Board actively monitors the cash and availability of funding.

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract.

The Company manages credit risk by way of established risk management process encompassing credit approvals and the monitoring and reporting of exposures. Regular reviews are undertaken to assess and evaluate the financial stability of counterparties.

Liquidity risk management

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

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

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£	£	£	£	£	£
31 December 2011						
Financial assets						
Loans and receivables	**1,646,964,996**	**1,646,964,996**	**1,646,964,996**	-	-	-
Cash and cash equivalents	**13,112,641**	**13,112,641**	**13,112,641**	**-**	**-**	**-**
Financial liabilities						
Available for sale financial instruments						
- Derivative financial instruments	**(73,187,049)**	**9,669,053**	**-**	**3,628,574**	**14,941,739**	**(8,901,260)**
Other financial liabilities – amortised cost						
- Trade and other payables	**(49,005)**	**(49,005)**	**-**	**(49,005)**	**-**	**-**
- Current tax liabilities	**(2,119,278)**	**(2,119,278)**	**-**	**(2,119,278)**	**-**	**-**
- Borrowings	**(1,672,453,221)**	**(2,721,514,747)**	**-**	**(229,705,569)**	**(777,830,573)**	**(1,713,978,604)**
	(1,674,621,504)	**(2,723,683,030)**	**-**	**(231,873,852)**	**(777,830,573)**	**(1,713,978,604)**
Total financial instruments	**(87,730,915)**	**(1,053,936,340)**	**1,660,077,637**	**(228,245,278)**	**(762,888,834)**	**(1,722,879,864)**

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

18. Risk management (continued)

Liquidity risk management (continued)

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£	£	£	£	£	£
31 December 2010						
Financial assets						
Available for sale financial instruments						
- Derivative financial instruments	5,465,263	2,195,809	-	(7,473,244)	16,360,972	(6,691,919)
Loans and receivables						
- Loan receivables	1,533,448,844	1,533,488,844	1,533,448,844	-	-	-
Cash and cash equivalents	1,980,402	1,980,402	1,980,402	-	-	-
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	(634,961)	(634,961)	-	(634,961)	-	-
- Current tax liabilities	(262,560)	(262,560)		(262,560)		
- Borrowings	(1,564,705,836)	(2,182,235,201)	(25,934,272)	(112,084,420)	(1,044,743,973)	(999,472,536)
	(1,565,603,357)	(2,183,132,722)	(25,934,272)	(112,981,941)	(1,044,743,973)	(999,472,536)
Total financial instruments	(24,708,848)	(645,507,667)	1,509,494,974	(120,455,185)	(1,028,383,001)	(1,006,164,455)

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

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

Interest rate risk management

The Company is exposed to interest rate risk because it borrows funds at fixed and floating interest rates. The cash flow risk is managed by the Company to maintain an appropriate mix between fixed and floating rate borrowings and the use of interest rate swap contracts and fixed interest rate contracts. Hedging activities are evaluated regularly to align with contract rate views and defined risk appetite, ensuring the most cost effective hedging strategies are applied.

Interest rate sensitivity analysis

The impact of a 50 basis points increase in LIBOR would have resulted in an increase in the interest expense of £7,698.

A 50 basis points upward shift in the yield curve would have led to an increase in negative fair value adjustment (loss) of £25,419,166.

Market risk management

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

The Company has borrowed at fixed rates of interest and at floating rates which have been hedged into fixed rates with the use of interest rate swaps. The Company is therefore not economically exposed to changes in interest rates.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

19. Related-party transactions

19.1 Identity of related parties

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

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

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

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

Regus House
Harcourt Centre
Harcourt Road
Dublin 2
Ireland

19.2 Transactions with related parties

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

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

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

	Preferred Equity Certificates			Ordinary Shares
	Subscribed	Redeemed	Held at 31 December 2011	Subscribed and held at 31 December 2011
M B Kenny	199,675	12,548	187,127	901
S F Purves	147,982	9,299	138,683	667

20. Contingent liabilities

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

21. Subsequent events

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