Eversholt Investment Limited

Financial Statements
for the 14 months ended 31 December 2011

Registered No: IR490363

Financial Statements
for the period ended 31 December 2011

Contents

Annual Review

The Directors of Eversholt Investment Ltd (EIL) present their Annual review of Eversholt Investment Ltd and its subsidiaries (collectively the Eversholt Rail Group of companies (ERG)) for the twelve months ending 31 December 2011, the accompanying annual financial statements are for 14 months.

Eversholt Investment Ltd and its owners

Eversholt Investment Ltd (EIL) is an Irish registered company wholly owned by Eversholt Investment Group (Luxembourg) Sarl (EIG), which is registered in Luxembourg. EIG is ultimately owned by 3i Infrastructure plc, Morgan Stanley Infrastructure Partners and Star Capital Partners. As at 31 December 2011, the interests in the equity of EIG were held as follows:

- 3i Infrastructure plc: 32.4%
- Morgan Stanley Funds: 32.4%
- Star Capital: 32.4%
- Management 2.8%

Star Capital controls and manages its equity in EIL. PGGM owns a c.44% stake in STAR's investment vehicle with c.55% being owned directly by STAR funds, with minority holders owning the balance.

The directors of EIG oversee operations of EIL and its subsidiaries. The directors of EIG represent the funds which ultimately own the investment and are Martijn Bosch (Morgan Stanley), Gordon Hunt (Morgan Stanley), Antoine Clauzel (3i), Stephen Halliwell (3i), Laura Carballo (Star Capital), Ivo Hemelraad (Star Capital), plus 1 independent director - Wim J.A. Rits (Vistra).

EIL is managed by its directors Chris Cullen, Michael Walsh and Brian Hayden who are independent of the investment funds. Chris Cullen, Michael Walsh and Brian Hayden are also the sole directors of EIL's Irish subsidiaries.

The UK subsidiaries of EIL are managed by an executive management team led by Mary Kenny, the Chief Executive Officer. This team also manages the provision of a range of asset management and administrative services to EIL and its Irish subsidiaries. As at 31 December 2011, the other members of the management team were:

- Simon Purves, Chief Operating Officer
- Richard Carrington, Head of Projects and Procurement
- Kevin Limb, Head of Asset Management
- Chris Moss, Head of Engineering Strategy
- John Reddyhoff , Head of Engineering
- Clive Thomas, Head of Commercial and Business Services
- Steve Timothy, Head of Relationship Development
- Eric Wiles, Head of Finance

Annual review (continued)

The Business of the Eversholt Rail Group

EIL through its subsidiary companies owns and manages rolling stock and other railway assets located in the United Kingdom. ERG owns approximately 28% of the UK passenger rolling stock. This percentage has remained stable in recent years. ERG companies enter into long term, operating leases to supply a diverse range of passenger rolling stock, including regional, commuter and high speed passenger trains, to Train Operating Companies ('TOCs') and freight locomotives and wagons to Freight Operating Companies ('FOCs'). The fleet consists of 3,474 passenger vehicles and 1,140 freight locomotives and wagons. ERG is active in the market place, investing in new rolling stock and proactively investing in enhancements to its existing fleets.

ERG strategy is based on four pillars:

1. Maximise demand and income from the existing fleets;
2. Invest to enhance returns by refurbishment and life extension of existing fleets;
3. Selective investment in new fleets;
4. Provide Asset Management services to the owners of other fleets.

Business of ERG – 2011 key performance indicators

- Approximately 28% of UK passenger rolling stock market.
- In 2011, ERG generated turnover of £270m through Capital Rentals and £79m through Maintenance Rentals.
- LSER was ERG's largest customer (31% of total passenger capital rental).
- Current passenger leases have remaining duration that ranges from 21 months to 17 years with an average lease length of 4 years.
- 100% passenger rolling stock utilisation in 2011.
- Extended lease agreements for fleets on Transpennine Express and Greater Anglia franchises.
- All 38 class 380 units accepted into passenger service by First ScotRail.

Purchase and delivery of the Class 380

During the course of the year, ERG completed the acquisition of the Class 380 fleet of 130 vehicles from Siemens. The purchase of the Class 380 fleet is the most recent example of a strategic purchase that complements the existing portfolio. ERG invested £187m to acquire this fleet.

The successful introduction into passenger service of the Class 380 fleet also demonstrated the effectiveness of the ERG process for new business and project delivery. The completion of the delivery of this fleet marks the successful completion of a long term project which started in 2008 with the signing of the purchase contract. The first tranche of the new rolling stock entered service during the autumn of 2010, in time for the operator, First ScotRail, to introduce a new service timetable in December 2010. The final unit was delivered in August 2011.

Customers

ERG currently has long-term leases to supply rolling stock to 11 UK TOCs and three of the major FOCs. The proportion of passenger capital rentals derived from each of the five largest sources is set out below:

Franchise	TOC	Percentage of capital rentals*
South Eastern	London and Southeastern Railway (LSER)	31%
Scotrail	First ScotRail	15%
East Coast	East Coast Main Line	14%
Greater Anglia Franchise	National Express East Anglia	13%
First Capital Connect	First Capital Connect	8%

*Refers percentage of 2011 passenger capital rental relating to the respective TOC.

ERG ensures a consistent approach to its customer relationships through the use of structured account plans for each customer that underpin regular working-level interaction and dialogue. Progress against these plans is reviewed on a quarterly basis at a Relationship board meeting attended by the ERG Management Team.

Examples of recent ERG initiatives with customers include joint work with East Coast to improve the reliability and operational resilience of the IC225 intercity train fleet and the early implementation of accessibility improvements to the Class 320 suburban electric multiple units leased to First ScotRail.

Asset utilisation

ERG has had a high level of passenger fleet utilisation since privatisation. ERG had 100% utilisation of the passenger rolling stock in 2011.

Recent and upcoming re-letting

The Department for Transport's recent extension of the Transpennine Express franchise enabled ERG to secure its Class 185 DMU fleet on lease until at least April 2014 following successful negotiations with First Transpennine Express.

The leases for ERG's fleets with National Express East Anglia (NXEA) on the Greater Anglia Franchise (GAF) will end in February 2012. ERG is currently negotiating new leases for these fleets with Abellio, who will succeed NXEA as the GAF operator for the period February 2012 to July 2014. No other ERG passenger rolling stock lease is due to end during 2012.

Annual review (continued)

Suppliers

ERG has good relationships with all of its key suppliers. ERG has developed a procurement approach which takes into account the risks around a limited supplier base for new rolling stock build and maintenance services.

Since privatisation, ERG has selectively invested in new rolling stock. In recent years, ERG has purchased the Class 395 and Class 380 fleets. By mid-2011, all 38 class 380 units were accepted and in service generating rental income for ERG. ERG remains actively engaged in considering new opportunities to own and manage new build rolling stock to meet future industry requirements.

Currently, ERG has substantial maintenance supply contracts in place with a number of key maintenance providers including Alstom, Bombardier, Hitachi, Railcare, Siemens, and Wabtec.

Business environment and trends

The passenger rail industry in the UK has continued to be subject to considerable review over the last year with the government emphasising the importance of continued investment to meet continuously growing demand, but also searching for ways to achieve better value for money. The government has announced several major investment schemes in the industry, and these will require additional rolling stock.

Business environment – 2011 key performance indicators

- 4.4% year on year increase in franchised passenger kilometres travelled in the 3 months to September 2011.
- 14.3% year on year increase in freight lifted in the 3 months to September 2011.
- Thameslink and IEP financial close expected in Q1 2012.
- Rail Value for Money Report published in March 2011.
- DfT’s preference for longer franchises (15 Years) announced.

The Usage Statistics

The most recent figures published by the Office of Rail Regulation show that franchised passenger kilometres travelled in the 3 months to September 2011 totalled 14.2bn, an increase of 4.4% on the same period a year earlier, continuing the upward trend. Freight lifted increased by 14.3% for the 3 month period to September 2011 and totalled 25.3 million tonnes. Freight lifted is the mass of goods carried on the network, measured in tonnes, but taking no account of the distance travelled.

Additional rolling stock

The Secretary of State for Transport made an announcement on 16 June 2011 that 1200 new rail carriages will be added to the Thameslink route, with the first carriage arriving in 2015 and completion of the project by December 2018 / January 2019. Financial closure of this contract is expected in H1 2012.

On 1 March 2011, the Secretary of State for Transport announced that the government would proceed with the procurement of new intercity high speed trains from Agility Trains (Hitachi), involving 500 new carriages to operate on the Great Western Main Line and East Coast Main Line. Financial closure of the contract is also expected in H1 2012.

ERG welcomes the additional capacity that will be provided by these orders. In some instances, deployment of the new build could result in displacement of ERG stock from its current operation. ERG is continuously working with relevant parties to ensure that alternative opportunities are secured and that any necessary investment is planned in advance. ERG will also look for the right opportunities to provide asset management services to other new owners.

ERG will continue to look for the right opportunities to invest further in new fleets when it strategically fits with the existing portfolio.

Rail Value for Money Review

The McNulty report which was published on 19 March 2011, identified the potential for savings of up to £1bn without cutting services. The report encourages a ‘partnering’ approach to be developed between the DfT and the ROSCOs in respect of existing rolling stock. A Rail Delivery Group (RDG) has been established to develop an industry wide strategy for achieving the goals recommended by McNulty, and ERG is encouraging these developments and is working with RDG.

Franchising

The government has continued to consult on its approach to passenger franchising. On 19 January 2011, the Secretary of State for Transport published reform plans, including a preference for longer franchises, for around 15 years. The first such franchise will be for the Inter City West Coast to be let from the start of 2013, and is likely to be followed by Great Western in Q2 2013, East Coast Q4 2013 and Greater Anglia in Q3 2014. While full details of how such changes to franchising will affect rolling stock owners are not yet clear, ERG believes that this could create an opportunity to improve the long term demand for its vehicles.

Electrification

The government announced on 1 March 2011 plans to extend electrification of the Great Western Main Line to Bristol and Cardiff. In its autumn statement, the Government further announced the electrification of the Manchester to Leeds line with probable extension to York. This is likely to displace Eversholt Rail’s Class185 from this premium route. However, the franchise will be re-let prior to the completion of the electrification and ERG is confident that the Class 185 units will be cascaded to other routes once electrification has been completed. The Industry Initial Plan, the industry wish list for CP5 (control period 5 2014-2019) included the electrification of Midland Mainline and Gospel Oak- Barking in East London. The Government will publish its statement of funds available (SOFA) in 2012.

Currently, the Welsh Assembly Government is finalising its business case for the electrification of the Valley lines into Cardiff and will present its proposals to the DfT for a decision in Q1 2012.

Since ERG has a large fleet of new and mid-life EMUs, additional electrification will create new markets and additional opportunities for deploying its fleets. ERG is in discussions with the current (and potential) operators of franchises which are likely to benefit from the additional electrification.

High Speed Two

Following a public consultation process, which was undertaken during 2011, on 10 January 2012 the Transport Secretary confirmed the Government’s commitment to an expanded high speed network, with confirmation of the intention to develop the second high speed line (HS2). The announcements confirmed (with minor amendments) the route from London to Birmingham originally proposed in the December 2010 announcement. Details of the routes from Birmingham to Leeds and Manchester will be announced in due course.

HS2 is a long term project and will require a bespoke fleet of trains and will not give rise to cascade opportunities for existing rolling stock. As the first train is not expected to be in service until 2026, HS2 will have no impact on ERG fleets in the short to medium term.

Fleet overview

The following section provides an overview of the ERG fleet.

Fleet overview – 2011 key performance indicators

- Number of passenger vehicles 3,474.
- EMUs comprise of 75% of the passenger fleet.
- Number of freight vehicles 1,140.
- Average age of the fleet is 16.6 years.
- £71m spent on heavy maintenance in 2011.

The ERG passenger rolling stock portfolio consists of 19 separate fleets comprising of 3,474 passenger vehicles, of which over 2,500 are electric-powered. These fleets range from 75mph suburban Electric Multiple Units (EMUs) to 140mph high-speed intercity trains. The business also owns a significant proportion of the UK's most modern Diesel and Diesel-Electric Multiple Unit (DMU and DEMU) fleets. In addition, there is a freight fleet consisting of 83 diesel locomotives and 1057 freight wagons consisting primarily of container flats and coal hoppers.

The average age of the fleet is 16.6 years and varies from the older vehicles introduced into service in 1971 (Mk2 coaches) and 1976 (class 313 EMU) to the newest fleet of class 380 EMUs introduced into passenger service by First ScotRail during 2010/11.

Operating locations

The ERG fleet is operated across the UK as shown in the table below.

Operating into London: Classes 168, 222,313, 315, 321, 365, 375/6, 395, 455, 465, 91+Mk4
Regional: Classes 158, 321, 185, 322
Scotland: Classes 170, 318, 320, 334, 380, Mk2

The freight fleets primarily operate between the ports and major distribution centres for the intermodal operations (Flat Wagons) and power stations for the heavy haul fleet (Coal Hoppers).

Fleet condition

The asset engineering team regularly visit operating depots and freight yards for the purpose of vehicle inspection and technical investigation. ERG has an excellent knowledge of the current condition of its fleet.

ERG performs a full programme of asset inspection activities for its fleets, including periodic asset inspections throughout the franchise plus re-delivery / delivery inspections. ERG has developed a process of targeted inspections based on risk analysis which has allowed us to perform our annual inspection plan with our own in-house team.

Fleet performance

ERG fleet performance is constantly monitored for emerging trends that might indicate that a particular fleet has developed a problem. In addition, ERG works proactively with TOCs to identify opportunities to improve the performance of its fleets. ERG maintains constant dialogue with the train operators on fleet performance so that any emerging issues can be dealt with quickly.

Maintenance

Maintenance regimes

All maintenance regimes are approved by ERG and are in turn used to form the basis of whole life cost models which support the calculations for maintenance rentals or maintenance reserve payments. Rentals and reserve payments are used to balance the cost of maintenance across the life of a fleet in order to achieve an even spread of maintenance cost liability to successive train operators.

Maintenance optimisation

Strategic maintenance planning is an essential element to maintaining fleet availability as well as achieving cost optimisation. The maintenance regimes for all ERG fleets are regularly reviewed in order to reduce cost by achieving efficiency and removing waste. Recycling or refurbishment of components is achieved where possible.

Enhancements and major projects

ERG uses an on-going asset planning process that considers the future need of the operating railway and compares it to the utility of the fleet within its rolling stock portfolio. This helps ERG to identify the risks and opportunities associated with the ability of our fleets to provide the needs of the railway for the long term and therefore to keep the portfolio on lease e.g. the introduction of new legislation for diesel engine emissions or the introduction of the European Train Control System (ETCS).

Financial Performance

Financial Performance – 2011 key performance indicators

- 2011 turnover was £353m.
- 2011 EBITDA was £269m.
- In 2011 ERG generated EBT of (£131)m.
- Company rating at year end: Fitch A- & S&P BBB.
- Average maturity of debt extended to 2022 (2018 at Sale).
- ERG is securely compliant with all its financial covenants.

The Earnings Before Tax of negative £131m is after charging £59m of interest on loans provided by the shareholders to fund the business and after accounting for an unrealised loss of £79m on the swap contracts when they are marked to market. Before these charges, ERG, made a profit of £7m, a pre-tax margin on turnover of 2%.

Annual review (continued)

Trading Performance in 2011

During the course of 2011, ERG's financial performance was in line with expectation.

Turnover was £354m, with maintenance spend of £71m and overheads of £15m. During the year, ERG invested £107m enhancing its existing rolling stock or buying new rolling stock.

Financing Activities

In February 2011, Eversholt Funding plc issued a third bond raising a further £400m of long term funding. The funds raised by this bond issue were utilised to pay off the short-term funding (4 year maturity) originally raised in December 2010. None of ERG's funding now matures until 2016. Average maturity of the debt was extended from 2018 to 2022 following the issuance of the £400m amortising bond in February 2011.

ERG's debt ratings with Fitch and S&P remain unchanged with a stable outlook. At year end ERG's Fitch rating was A- and S&P rating was BBB.

Covenants

ERG continues to comply with all of its financial covenants:-

	Actual	Default Level
Net Debt to EBITDA	5.74x	>8.00
Interest Cover Ratio	2.70x	<1.5
NPV Test	47.4%	>75%

The covenanted ratios are all within the default limits, providing comfort that the debt service is comfortably within the profitability and cash generating capability of ERG. The NPV demonstrates that the underlying asset base of ERG comfortably supports the long term sustainability of the required levels of profitability and cash generation.

Operational Environment

Operational Environment– 2011 key performance indicators

- Successfully achieved RISAS approval.

The principal business risk for ERG is in respect of residual value of its rolling stock assets. ERG seeks to maximise the residual value of its assets by active management of the technical and commercial utility of these assets. The risk is mitigated by long-term lease contracts, underpinned by strong and growing demand for passenger rail travel.

In addition, ERG benefits from the existence of an obligation placed on the Secretary of State for Transport, under Section 30 of the Railways Act 1993, to ensure that passenger services are maintained (the **S30 Obligation**). As a result, ERG has a much reduced counterparty risk in respect its lessees of passenger rolling stock, since the DfT will require the use of the rolling stock to provide the services even in the event of a failure by the lessee.

In some instances, the DfT has provided additional support for investment for specific rolling stock utilising the powers given to the Secretary of State, in accordance with Section 54 of the Railways Act 1993, by guaranteeing to provide a lessee for the rolling stock for a specific period of time.

An assessment is carried out by management every six months to reconfirm the commercial value of all assets, by measuring the present value of the net anticipated cashflows arising from ownership over the remaining assumed life of the assets. This assessment is undertaken at an asset by asset level and takes into account the technical and market position of each asset, assesses the need for future investment to ensure that the asset continues to offer the required utility and defines the strategy for ensuring that the asset can continue to offer safe performance and competitive value for as long as possible.

This provides a formal context in which to ensure that all issues affecting the long-term return of each asset are being constantly updated and evaluated.

Safety

The operational safety of rolling stock on the railway network is the responsibility of the train operator. ERG is responsible for the safety of its own staff, for the rolling stock services that it provides and for placing rolling stock into service at new build and at the start of a new lease. ERG has a team dedicated to engineering safety and providing an oversight role over all the activities undertaken by the asset engineering teams.

Personal health, safety and welfare is managed by the line management team and is managed by risk assessing activities of staff, ensuring that they are properly trained and having the correct equipment to carry out their job in a safe manner. These arrangements include particular provisions for those staff who periodically work in railway depots or near an operational railway.

Asset safety is the prime responsibility of the Head of Engineering supported by the management team. This responsibility is discharged by employing staff with a high level of professional and technical competence supported by policies and procedures to manage work carried out by ERG and the qualification, selection and management of all suppliers. The culture of people within the business is periodically checked through staff surveys.

For a number of years, ERG's policies and procedures have been subject to external surveillance by our ISO9000 certification body. In addition in 2011, Eversholt Rail (UK) Limited successfully achieved RISAS approval for its procurement of overhaul and modification services. RISAS (Railway Industry Supplier Approval Scheme) is a supplier accreditation process sponsored by the railway industry. It is a rigorous third party audit intended to give the train operator a level of assurance that the suppliers of safety critical products and services have the competencies, processes and practices in place to manage those activities. The audit confirmed that ERG met the requirements set by the industry in all the areas reviewed and demonstrated best industry practice in ensuring the competence of staff with safety decision making roles.

Safety performance and risk is monitored at a monthly meeting attended by members of the management team and operational staff in accordance with ERG's procedures for asset safety management.

Safety governance continues to be provided by a quarterly review of asset safety chaired by an independent safety adviser and attended by the management team to check compliance with policy and give due consideration to safety best practice in rail and other industries.

Employees

Employees – 2011 key performance indicator

- ERG had 97 employees (31 December 2010 – 83).
- 22 employees joined the company.
- 8 employees (two retirements) left the company.

ERG seeks to attract people who wish to work for an organisation with strong and sound values, one which is meritocratic and competitive, and which offers challenging career development.

ERG aims to develop personal and technical skills, by identifying individual needs and providing an environment and opportunity for appropriate training. This enables individuals to reach their full potential, and supplies the organisation with the necessary range and depth of skills and knowledge on an on-going basis.

A number of initiatives were introduced in 2011 in order that ERG attract, develop, motivate and retain talented members of staff with high levels of expertise. These included a full market related remuneration review, the review of employee policies to incorporate a sabbatical policy, extension of the flexible working arrangements and an employee referral scheme.

Complementary to these additional employee benefits, the training and development programme was enhanced to include individual coaching and mentoring, and bespoke training courses tailored to individual team requirements. ERG continued to invest in professional qualifications, which led to a number of individuals obtaining Chartered status in their related discipline.

Joiners and leavers

At 31 December 2011, ERG employed 97 permanent members of staff and 2 temporary staff members.

Twenty two employees joined the company during 2011; this included a Year in Industry Student and a Graduate Mechanical Engineer. In addition, ERG offered three work experience placements for individuals in full time education. In total, eight employees left the company during 2011; two retirements and six for alternative employment.

Social and Community Activities

ERG encourages its employees to become active members of their communities, providing paid time off for employees to undertake a wide variety of charitable, educational, environmental and socially inclusive activities, including working on charity and school boards of trustee/governors, mentoring pupils, and environmental initiatives. ERG considers staff involvement in social community activities on a case by case basis.

Sustainability

Rail is widely considered to be one of the greener and more environmentally friendly modes of transportation. However, in the last few years, there has been less clear water between the ‘green’ credentials of rail travel compared to other modes of transportation as the latter have made great strides to become more energy efficient. This is an important period for the rail industry as it needs to improve its green credentials if it wants to remain the sustainable transport mode of choice.

At ERG, we believe that businesses are responsible for achieving good environmental practice and operating in a sustainable manner. ERG is committed to reducing our environmental impact and continually improving our environmental performance as an integral part of our business strategy and operational methods. It is our aim to encourage our customers, suppliers and all business associates to do the same. Not only does this make sound commercial sense, it is also a matter of delivering on our duty of care towards future generations.

Sustainability is important to ERG and the message is inherent in the various strands of our strategy. The following section covers some of the highlights of ERG’s 2011 sustainability related activities.

Sustainability - 2011 key performance indicators

- Launch of new sustainability framework.
- Establishment of the sustainability steering group.
- 39 entries for the inaugural green awards competition.
- New recycling arrangement in the office.
- 51 trees saved as result of recycling the content of the confidential bins.

Launched new sustainability campaign

During 2011, the management team decided that ERG should re-think the sustainability strategy and make it applicable to a company of ERG’s profile. As a result the following campaign was launched early 2011:

‘ERG’s approach to sustainability; a sensible, practical and commercially viable approach’

The new framework was tailored to meet ERG’s sustainability needs as an asset owner and employer. The new framework is currently in the early stages and will have a top down approach that focuses on large scale issues such as maintenance optimisation and bottom up approach that focuses on easy to implement office related projects. The initial stages of the new framework have been well received by staff.

Sustainability steering group

A sustainability working group was formed in 2011 and the group comprises of over ten employees from a cross section of the business with representation from all departments and employment grades. The group meets every two months to discuss sustainability issues that relate to the office and the ERG fleet. This steering group provides employees with a forum to express their views, introduce new practices and analyze the success or failure of the sustainability related actions. For example, the group looked at ways to increase participation in the office recycle scheme. This included a review of the current process and understanding why people were getting it wrong. The input from the group was helpful in improving the process.

Annual review (continued)

Green awards

ERG introduced a green awards scheme in 2011. The green awards were for two categories, green award for office innovation and green award for asset efficiency. The first edition of the green awards was launched in H2 2011 with first awards presentation in December 2011. There were 39 entries for the competition, this is a significantly high number of entries for company the size of ERG. The quality and quantity of the entries support that fact that the employees engaged in the green awards scheme and are committed to ERG's sustainability agenda.

New build

ERG's policy is to evaluate environmental issues during the procurement process for new build trains. ERG supports and complies with the requirements of current environmental legislation and exceeds where possible. ERG ensures that the specification and design have high environmental standards built-in as this makes good business sense.

Recycling - office related

ERG introduced a new recycling arrangement in 2011. The new setup includes separate recycle bins for paper, plastic, cans and batteries and the bins have been placed in convenient locations around the office. Approximate data of the quantity of material recycled is measured and the summary statistics are presented to the employees. The quarterly recycling update to staff highlights positive trends and points out areas that need improvement. Employees have responded positively to the feedback and the quantity of material recycled significantly increased during the course of the year.

Confidential bins

ERG uses a service provider who recycles all the content in the confidential waste bins, printer cartridges etc. In 2011, ERG saved 51 trees as result of recycling the content of the confidential bins in the office.[1]

[1] Number of saved trees provided by confidential waste disposal service provider

Directors' report
for the period ended 31 December 2011

Principal activities

The Company was incorporated on 19 October 2010 to acquire the Eversholt Rail Group (the "Group"). Trading commenced on 3 December 2010.

The principal activity of the Group is to own and lease rolling stock and other railway assets in the United Kingdom ("UK"). The Group owns 28%, by number of the UK passenger rolling stock fleet as well as a small portfolio of freight assets.

The principal activity of the Company is to provide management and other administrative services to the Group.

Business review

The Company continues to hold all of the ordinary share capital of European Rail Finance Holdings Limited, the holding company of the Eversholt Rail Group.

During the period ended 31 December 2011, the Group has continued its business of owning and leasing rolling stock and other railway assets.

Risk management

The Company has established the financial risk management objectives and policies for the Group. These objectives, together with an analysis of the exposure to such risks, are set out in Note 31 of the financial statements.

The principal business risk for the Group is in respect of residual value of its operating lease assets. The Group 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 Group 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 Group's and Company's results for the 14 months ended 31 December 2011 are as detailed in the income statements on page 19.

The key performance indicator used by management in assessing the performance of the Group 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

The Group will continue to invest in the enhancement of its fleet.

The Group will continue to offer its assets for lease by train operators, with particular focus on upcoming major franchise renewals for the InterCity West Coast, InterCity East Coast, Greater Anglia and Greater Western franchises.

Dividends

The Directors do not recommend the payment of a dividend in respect of the period ended 31 December 2011. 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 Group and Company have 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 period ended 31 December 2011

Directors

The Directors who served during the period were as follows:

Name

B T Hayden (appointed 19 October 2010)
C Cullen (appointed 19 October 2010)
M Walsh (appointed 29 November 2010)
R A Chambers (appointed 3 November 2010, resigned 1 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. 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.

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. 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.

Accounting records

The Directors believe that they have complied with the requirements of section 202 of the Companies Act, 1990 with regard to books of account by employing a service provider, which has appropriate expertise and provides adequate resources to the financial function. The books of account of the Company are maintained primarily by Eversholt Rail (UK) Limited, 210 Pentonville Road, London N1 9JY.

Auditors

In accordance with Section 160(2) of the Companies Act, 1963, the Auditors, KPMG Chartered Accountants will continue in office.

Directors' report
for the year ended 31 December 2011

Directors' responsibility and approval of the annual financial statements

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the financial statements in accordance with applicable Company Law and International Financial Reporting Standards ('IFRSs') as adopted by the EU. The Company's financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for the period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2009. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies' Acts 1963 to 2009.

The Consolidated and separate financial statements were approved by the Board of Directors on 16 February 2012 and signed on their behalf by:

C Cullen
Director

M Walsh
Director

Registered office:
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Harcourt Road
Dublin 2
Ireland

Independent Auditor's Report to the Members of Eversholt Investment Limited

for the period ended 31 December 2011

We have audited the group and parent company financial statements (''financial statements'') of Eversholt Investment Limited for the period ended 31 December 2011 which comprise the Consolidated and separate income statements, Statements of comprehensive income, Statements of financial position, Statements of cash flows, Statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act 1990. 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

The Statement of Directors' responsibilities on page 16 sets out the directors' responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2009. We also report to you, in our opinion whether proper books of account have been kept by the company; whether at the statement of financial position date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the parent company statement of financial position is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Directors' report and consider implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's and parent company's affairs as at 31 December 2011 and of the group's and parent's loss for the period then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Independent Auditor's Report to the Members of Eversholt Investment Limited (continued)

for the period ended 31 December 2011

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company statement of financial position is in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the Company's statement of financial position are not more than half of the amount of its called-up share capital and, in our opinion, on that basis there did exist at 31 December 2011 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 may require the convening of an extraordinary general meeting of the company.

Paul Dobey

for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place, IFSC
Dublin
Ireland

16 February 2012

Consolidated and separate income statements
for the period ended 31 December 2011

	Notes	Group period ended 2011 £	Company period ended 2011 £
Revenue			
Finance lease income		1,257,505	-
Operating lease income		293,039,372	-
Maintenance income		78,995,403	-
Other revenue		1,656,559	-
Total income		374,948,839	-
Cost of sales	4	(246,749,354)	-
Gross profit		128,199,485	-
Finance income	5	844,156	734,784
Finance expense	6	(184,976,406)	(66,085,913)
Net loss on fair value adjustment on derivatives		(63,692,751)	-
Pension finance credit	30	370,000	-
		(119,255,516)	(65,351,129)
Acquisition costs	7	(28,683,665)	-
Administrative expense	8	(14,618,266)	(586,117)
Profit on disposal of property, plant and equipment		2,062,646	-
Loss before tax		(160,494,801)	(65,937,246)
Income tax credit	11	21,599,293	23,829
Loss for the period		(138,895,508)	(65,913,417)

There were no discontinued or discontinuing operations during the period. For additional information on acquisitions in the period refer to Note 7.

Statements of consolidated and separate comprehensive income
for the period ended 31 December 2011

		Group 2011 £	Company 2011 £
Loss for the period		(138,895,508)	(65,913,417)
Other comprehensive expense			
Actuarial losses on defined benefit scheme	30	(1,623,000)	-
Tax in respect of actuarial losses on defined benefit scheme	16	443,225	-
Total comprehensive expense for the period		(140,075,283)	(65,913,417)

The financial statements were approved by the board of directors and authorised for issue on 16 February 2012. They were signed on its behalf by:

C Cullen
Director

M Walsh
Director

Company registration numer IR490363

Statements of consolidated and separate financial position
as at 31 December 2011

		Group 2011 £	Company 2011 £
Assets			
Non-current assets			
Property, plant and equipment	12	2,122,866,072	22,949
Finance lease receivables	13	11,930,900	-
Trade and other receivables	14	16,962,580	-
Deferred tax	16	316,033	23,829
Investment in subsidiaries	17	-	393,238,408
		2,152,075,585	393,285,186
Current assets			
Inventories	18	2,252,058	-
Finance lease receivables	13	661,532	-
Trade and other receivables	14	24,676,917	73,110
Loans receivable	19	-	23,398,949
Cash and cash equivalents	20	192,053,644	26,553,010
		219,644,151	50,025,069
Total assets		2,371,719,736	443,310,255
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	21	52,085,822	22,271,710
Current tax		5,047,860	-
Obligations under finance leases	22	7,852,686	-
Borrowings	23	553,551,761	473,279,962
Derivative financial instruments	15	554,871	-
Provisions	24	339,125	-
		619,432,125	495,551,672
Non – current liabilities			
Borrowings	23	1,521,345,111	-
Deferred tax	16	102,734,015	-
Obligations under finance leases	22	94,381,002	-
Deferred revenue	25	87,598,588	-
Derivative financial instruments	15	72,632,178	-
		1,878,690,894	-
Total liabilities		2,498,123,019	495,551,672
Equity			
Share capital	26	12,000	12,000
Share premium account		13,660,000	13,660,000
Accumulated deficit		(140,075,283)	(65,913,417)
Total equity		(126,403,283)	(52,241,417)
Total equity and liabilities		2,371,719,736	443,310,255

The financial statements were approved by the board of directors and authorised for issue on 16 February 2012. They were signed on its behalf by:

C Cullen
Director

Michael Walsh

M Walsh
Director

Company registration numer IR490363

Statements of consolidated and separate cash flows
for the period ended 31 December 2011

	Notes	Group 2011 £	Company 2011 £
Cash generated by/(utilised in) operating activities	***27***	216,478,502	(483,823)
Taxation paid		(23,167,035)	-
Interest received		785,885	-
Realised gain on derivative financial instruments		9,494,297	-
		203,591,649	(483,823)
Investing activities			
Acquisition of property, plant and equipment		(117,282,084)	(25,481)
Proceeds from disposal of property, plant and equipment		10,903,000	-
Loans made		-	(23,398,949)
Acquisition of subsidiaries		(398,953,691)	(393,238,408)
Cash utilised in investing activities		(505,332,775)	(416,662,838)
Financing activities			
Loans raised		951,350,606	500,471,671
Interest paid		(138,481,261)	(43,252,291)
Payment of finance lease obligations		(1,499,317)	-
Loans repaid		(430,760,230)	(27,191,709)
Proceeds on issue of shares		13,672,000	13,672,000
Net cash generated by financing activities		394,281,798	443,699,671
Increase in cash and cash equivalents		92,540,672	26,553,010
Cash and cash equivalents acquired		99,512,972	-
Cash and cash equivalents at end of period	***20***	192,053,644	26,553,010

Statements of changes in equity
for the period ended 31 December 2011

Group

	Called up share capital	Share premium	Retained earnings	Total shareholders' equity
	£	£	£	£
Balance at 19 October 2010	-	-	-	-
Share capital issued	12,000	13,660,000	-	13,672,000
Loss for the period	-	-	(138,895,508)	(138,895,508)
Actuarial losses on defined benefit scheme after tax	-	-	(1,179,775)	(1,179,775)
Balance at 31 December 2011	**12,000**	**13,660,000**	**(140,075,283)**	**(126,403,283)**

Company

	Called up share capital	Share premium	Retained earnings	Total shareholders' equity
	£	£	£	£
Balance at 19 October 2010	-	-	-	-
Share capital issued	12,000	13,660,000	-	13,672,000
Loss for the period	-	-	(65,913,417)	(65,913,417)
Balance at 31 December 2011	**12,000**	**13,660,000**	**(65,913,417)**	**(52,241,417)**

Notes to the consolidated and separate financial statements (statutory)

for the period ended 31 December 2011

1 General Information

Eversholt Investment Limited is a company incorporated in the Republic of Ireland under the Companies Act. The registered office of the Company is Regus House, Harcourt Centre, Harcourt Road, Dublin 2. The principal activities of the company and the Group are set out on page 14.

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 Group operates.

2.1 Compliance with International Financial Reporting Standards

The consolidated and separate financial statements of Eversholt Investment Limited 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 consolidated and separate 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 Eversholt Rail Group (ERG). Accordingly, the consolidated and separate financial statements of Eversholt Investment Limited for the period 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 consolidated or separate financial statements of Eversholt Investment Limited. These include the following Standards which are relevant to the Group's financial statements.

2.2.1 IFRS 9 *Financial Instruments* ('IFRS 9')

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 10 *Consolidated Financial statements* ('IFRS 10')

This is a new standard that replaces the consolidation requirements in *SIC 12 Consolidation – special purpose entities* (SIC 12) and *IAS 27 Consolidated and Separate Financial Statements* (IAS 27). IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investment, eliminating the risks and rewards approach used in SIC12. IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and is not expected to have a significant impact on the Group or separate Company financial statements.

2.2.3 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 Group or separate Company financial statements.

2.2.4 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.

2.2.5 IAS 19 Employee Benefits

On 16 June 2011, the IASB published the amended *IAS 19 Employee Benefits* (IAS 19) Statement. These amendments require recognition of changes in the net defined benefit liability /asset including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements. The amended standard introduces changes to the accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and changes to the recognition and measurement of termination benefits. The amendments to the standard have provided clarification on a number of issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk sharing and conditional indexation features. IAS 19 is applicable on a modified retrospective basis to annual periods beginning on or after 1 January 2013.

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

2.3 Basis of consolidation

The consolidated financial statements of Eversholt Investment Limited comprise the financial statements of Eversholt Investment Limited and its subsidiaries made up to 31 December 2011.

Subsidiaries are consolidated from the date that the Company gains control. The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of completion. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition.

Entities that are controlled by Eversholt Investment Limited are consolidated until the date that control ceases.

All Group transactions, balances, income and expenses are eliminated on consolidation.

2 Basis of Preparation (continued)

2.4 Going concern

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

3. Summary of significant accounting policies

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

3.1 Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of the assets, but not necessarily legal title, are classified as finance leases. They are recorded at an amount equal to the net investment in the lease less any impairment provisions, within finance lease receivables. All other leases are classified as operating leases.

The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. The difference between the gross investment in the lease and the net investment in the lease is recorded as unearned finance income.

Income from finance leases is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

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

Income from operating leases is recognised on a straight-line basis over the lease term.

3.2 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 Group 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 Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

3.2.1 Borrowing costs

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

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

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 period, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the relevant entity intends to settle on a net basis and the legal right to offset exists.

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. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group has a legal right to offset.

3.4 Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting period. Any resulting exchange differences are included in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

3.5 Property, plant and equipment

In accordance with IFRS 3 the Group has restated its rolling stock and other railway assets to their fair value at the acquisition date.

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

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

i) Progress payments paid to third parties are capitalised.

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

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

3. Summary of significant accounting policies (continued)

3.5 Property, plant and equipment (continued)

Equipment, fixtures and fittings are stated at cost being the fair value at acquisition date less any impairment losses and depreciation calculated on a straight-line basis to write-off the assets over 5 years.

The depreciation charge is included in the income statement.

Assets held under finance leases are depreciated over the expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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

At each reporting date, the Group 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.

3.6 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.

3.7 Financial instruments

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

3.7.1 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 Group holds the following classes of financial assets.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.2 Loans and receivables

Loans and receivables include receivables originated by the Group 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.

3.7.3 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.

3.7.4 Impairment of financial instruments

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. If there is an indication that impairment exists, the recoverable amount of the asset is estimated to determine the extent of the impairment.

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

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

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

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

3.7.5 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 Group becomes party to the contractual provisions of the instrument. The Group 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. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

3.7.6 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.

3.7.7 Derivatives and hedge accounting

The Group 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 or loss depends on the nature of the hedge relationship. During the period ended 31 December 2011, the Group did not hold any derivatives that were designated as hedging instruments.

3.7.8 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 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 Group’s financing activities, through which the Group will acquire resources intended to generate future income and cash flows.

3.9 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.

3.10 Use of assumptions and estimates

In the application of the Group’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.

3. Summary of significant accounting policies (continued)

3.10 Use of assumptions and estimates (continued)

Critical judgements in applying the Group's accounting policies.

The following are the critical judgements and estimates that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

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.

Valuation of defined benefit retirement obligation

In making their estimate of the valuation of the defined benefit retirement obligation, management have made a number of assumptions. These assumptions are more fully described in note 30

Fair value of derivative financial instruments

In the determination of the fair value of financial instruments, management have taken into account the contractual cash flows attaching to the instrument and an independently sourced yield curve for the reporting date.

3.11 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.

3.12 Retirement benefit obligations

The Group provides defined benefit and defined contribution schemes on behalf of employees. The defined benefit scheme is funded by contributions partly from the employees and partly from the Group at rates assessed by independent actuaries. These contributions are invested separately from the Group's assets.

The defined benefit pension costs and the present value of defined benefit obligations are calculated at the reporting date by the scheme's actuaries using the Projected Unit Credit Method. The net charge to the income statement mainly comprises the current service cost, plus the unwinding of the discount rate on plan liabilities, less the expected return on plan assets, and is presented in operating expenses. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise. The defined benefit asset recognised in the statement of financial position represents the fair value of plan assets less present value of defined benefit obligations adjusted for unrecognised past service costs. Any net defined benefit surplus is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value.

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

3. Summary of significant accounting policies (continued)

3.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group 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.

3.15 Preference shares

Preference shares are classified as a non-current liability as the holder of these shares has a fixed entitlement to a dividend. The dividend payable is recorded within finance expense.

4 Cost of sales

	Group 2011 £	Company 2011 £
Depreciation	170,371,767	-
Maintenance cost	76,110,147	-
Write down in the value of inventories	267,440	-
	246,749,354	-

5 Finance income

	Group 2011 £	Company 2011 £
Fixed rate preference dividend	-	537,041
Bank interest	844,156	197,743
	844,156	734,784

6 Finance expense

	Group 2011 £	Company 2011 £
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	(65,437,290)	(65,437,290)
Profit participating preference share dividend	(679,109)	-
Interest payable on derivatives	(8,472,924)	-
Interest payable on bank loan	(15,364,482)	-
Interest expense on obligations under finance leases	(10,072,125)	-
Interest payable on bonds	(69,576,581)	-
Other finance costs	(766,322)	-
Unwinding of capitalised borrowing costs	(14,607,573)	-
Interest payable to Eversholt Rail (UK) Limited	-	(648,623)
	(184,976,406)	(66,085,913)

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

7 Acquisition of subsidiaries

On 3 December 2010, the Company acquired all of the ordinary shares in European Rail Finance Holdings Limited (ERFHL) for £398,953,691, satisfied in cash. ERFHL was the holding company of the Eversholt Rail Group.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition £
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	2,185,326,333
Inventories	2,521,503
Trade and other receivables	7,317,078
Cash and cash equivalents	99,512,972
Interest-bearing loans and borrowings	(1,666,187,171)
Trade and other payables	(93,786,574)
Deferred tax liabilities	(135,750,450)
Net identifiable assets and liabilities	398,953,691
Consideration paid:	
Total consideration	398,953,691

Acquisition related costs

The Group incurred acquisition related cost of £28,683,665 related to equity, legal and professional fees. The equity fees paid were £6,830,000 to Star General Partners Limited and £6,830,000 to 3i Infrastructure Plc. These companies are partners in the partnership which owns all the share capital of the parent company of the Group. These costs have been expensed in the Group's financial statements and are included within the cost of investment in subsidiaries in the Company's financial statements.

Given the nature of the transaction, in the opinion of the Directors there is no material difference between the carrying value and the fair value of the Group's assets and liabilities.

8 Administrative expense

Administrative expenses include:

	Group 2011 £	Company 2011 £
Foreign exchange (loss)gain	(830)	(2,615)
Depreciation	(530,224)	(2,532)
Defined contribution pension costs	(395,000)	-
Audit fees		
- audit of the Company's individual and Group financial statements	(147,364)	(21,257)
- other non-audit services	(2,466)	(2,466)

Except for the fees disclosed above, no other fees have been paid to the auditors.

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

9 Staff numbers and costs

Group

The average number of persons employed by the Group (including directors of the Company) during the period was as follows:

	Group 2011 Number	Company 2011 Number
Directors	3	3
Operations	47	1
Administration	39	1
	89	5

The period reflected commences 4 December 2010, the date on which the Group was formed.

The aggregate payroll costs of these persons were as follows:

	Group 2011 £	Company 2011 £
Wages and salaries	(11,518,319)	(223,097)
Social security costs	(1,300,872)	(9,820)
Contributions to defined contribution pension scheme	(1,100,946)	(11,538)
Expenses related to defined benefit pension scheme (Note 30)	(27,000)	-
	(13,947,137)	(244,455)

10 Directors' emoluments

	Group 2011	Company 2011
For services to the Company	(152,492)	(152,492)
- Reimbursment of expenses	(1,861)	(1,861)

The emoluments of the highest paid director, including benefits in kind were £52,435. None of the Directors are members of the defined benefit scheme nor do they have any share options or interest in the share capital of the Company.

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

11 Income tax credit

	Note	Group 2011 £	Company 2011 £
Current tax			
Irish Corporation tax			
On current period profit		(16,057)	-
Overseas tax			
On current period profit		(11,272,470)	-
		(11,288,527)	-
Deferred tax			
Origination and reversal of temporary differences	***16***	32,887,820	23,829
Total income tax expense		21,599,293	23,829

The Irish corporation tax rate applying to the Company and its Irish subsidiaries was 12.5%. The UK tax rate applying to the profits of subsidiaries assessable in the UK was 26.5%.

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

	Group 2011 £	Company 2011 £
Taxation at corporation tax rate of 12.5%	20,061,850	8,242,156
Amounts not deductible for tax purposes	(12,494,726)	(8,260,738)
Change in tax rates	6,145,282	-
Prior year adjustment	(495,375)	-
Income not taxable for tax purposes	-	67,130
Effects of taxing overseas profits at different rates	8,382,262	-
Value based relief	-	(24,719)
	21,599,293	23,829

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax, relating to components of other comprehensive income, resulted in a £443,225 increase in total comprehensive income.

12 Property, plant and equipment

Group

	Other assets £	Assets in the course of construction £	Rolling stock and other railway assets £	Total £
Cost				
Additions (acquired through business combination)	2,052,789	82,725,169	2,100,548,375	2,185,326,333
Transfers	-	(82,725,169)	82,725,169	-
Additions	226,340	-	117,055,744	117,282,084
Disposals	(1,018)	-	(10,240,820)	(10,241,838)
Balance at 31 December 2011	**2,278,111**	**-**	**2,290,088,468**	**2,292,366,579**

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

12 Property, plant and equipment (continued)

Depreciation				
Charge for the period	530,224	-	170,371,767	170,901,991
Disposals	(1,018)	-	(1,400,466)	(1,401,484)
Balance at 31 December 2011	**529,206**	-	**168,971,301**	**169,500,507**
Net carrying value				
Carrying value at 31 December 2011	1,748,905	-	2,121,117,167	2,122,866,072

Within property, plant and equipment is capitalised interest of £2,169,003. The capitalisation rate used is the rate of interest attaching to the Group's borrowings attributable to the construction of rolling stock.

All assets have been pledged to secure borrowings of the Group. The Group is not permitted to pledge these assets as security for other borrowings. The assets are secured by a fixed charge held by the financial institutions that have lent to Eversholt Funding Plc.

The Group obligations under finance leases are secured by the lessor's title to the leased assets which have a carrying amount of £68,219,972 at 31 December 2011.

Other assets relate to equipment, fixtures and fittings.

The depreciation charge on rolling stock and other railway assets is included within cost of sales in the income statement. The depreciation on other assets is included in administrative expenses.

Company

	Other Assets £
Cost	
Additions	25,481
Depreciation	
Charge for the period	2,532
Carrying value at 31 December 2011	22,949

13 Finance lease receivables

	Group 2011 £	**Company 2011 £**
Gross investment in finance leases		
Amounts falling due:		
No later than one year	1,736,608	-
Later than one year and no later than five years	6,678,172	-
Later than five years	10,866,263	-
Gross investment in finance leases	19,281,043	-
Unearned finance income	(6,688,611)	-
Net investment in finance leases less provisions	12,592,432	-

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

13 Finance lease receivables (continued)

	Group 2011 £	Company 2011 £
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	661,532	-
Later than one year and no later than five years	3,379,084	-
Later than five years	8,551,816	
Present value of minimum lease receivables	12,592,432	
Fair value of amounts receivable under finance leases	13,157,854	
Aggregate finance lease rentals receivable in the period	1,171,788	

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

The Group has entered into finance leasing arrangements for depots and certain equipment. The terms of the finance leases vary between 10 and 20 years.

Finance lease receivable balances are secured over the depots and equipment leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

The interest rate inherent in the lease is fixed at the contract date for all of the lease terms. The average effective interest rates contracted are between 6% and 10% per annum.

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

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 are not impaired.

14 Trade and other receivables

	Group 2011 £	Company 2011 £
Receivable no later than one year:		
Trade receivables	2,217,086	-
Other receivables	313,168	73,110
Retirement benefit asset (Note 30.5)	489,000	-
Maintenance prepayment	21,657,663	-
	24,676,917	73,110
Receivable later than one year:		
Maintenance prepayment	16,962,580	-
	41,639,497	73,110

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

15. Derivative financial instruments

	Group	Company
	2011	**2010**
	£	**£**
Current		
Forward exchange contracts - assets	**-**	-
Forward exchange contracts - liabilities	**554,871**	-
Non-current		
Forward exchange contracts - liabilities	**72,632,178**	-

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

During the period ended 31 December 2011, none of the swaps were designated in hedge accounting relationships.

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

16 Deferred tax

	Group 2011 £	Company 2011 £
Leasing transactions temporary differences:		
Balance at beginning of the period	-	-
Acquisition of subsidiaries	(135,749,027)	-
Income statement credit	32,887,820	23,829
Other comprehensive income: actuarial movement on retirement benefit obligations	443,225	-
Balance at end of the period	(102,417,982)	23,829

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

Deferred tax assets and liabilities are offset where the Group or Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group 2011 £	Company 2011 £
Deferred tax asset	316,033	23,829
Deferred tax liability	(102,734,015)	-
	(102,417,982)	23,829

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

16 Deferred tax (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 2010 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, the effect of this change only is included in these financial statements.

17 Investments in subsidiaries

	2011 £
Cost	
Additions	393,238,408

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
European Rail Finance Holdings Limited	Ordinary shares	Ireland	Investment	100
European Rail Finance Limited*	Ordinary shares	Ireland	Leasing	100
European Rail Finance (GB) Limited*	Ordinary shares	England	Leasing	100
Eversholt Rail Holdings (UK) Limited*	Ordinary shares	England	Investment	100
Eversholt Rail (UK) Limited*	Ordinary shares	England	Management services	100
Eversholt Depot Finance (UK) Limited*	Ordinary shares	England	Leasing	100
Eversholt Rail (365) Limited*	Ordinary shares	England	Leasing	100
Eversholt Rail (380) Limited*	Ordinary shares	England	Leasing	100
Eversholt Finance Holdings Limited*	Ordinary shares	England	Investment	100
Eversholt Funding plc*	Ordinary shares	England	Provision of finance to the Group	100

*Indirect subsidiaries

18 Inventories

	Group 2011 £	Company 2011 £
Rolling stock spares	2,252,058	-

Write down in the value of inventories recognised within cost of sales as an expense amounted to £248,719.

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

19. Loan Receivable

	Group 2011 £	Company 2011 £
Loan to European Rail Finance Limited	-	50,500
Loan to European Rail Finance (GB) Limited	-	9,348,449
Loan to Eversholt Rail (UK) Limited	-	14,000,000
	-	23,398,949

These loans are unsecured, interest free, have no fixed repayment terms and are therefore technically repayable on demand

20 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	Group 2011 £	Company 2011 £
Bank accounts	192,053,644	26,553,010

Within cash and cash equivalents there is a deposit of £26.5million which provides security for the Profit Participating Shares issued by one of the group undertakings. In addition £0.5million is restricted in terms of the agreement with the Law Debenture Trust Corporation plc.

21 Trade and other payables

	Group 2011 £	Company 2011 £
Trade payables	6,128,652	12,172
Lease rentals received in advance	15,850,098	-
Maintenance, acquisition and administrative accruals	7,680,106	74,540
Interest accrual	22,426,966	22,184,998
	52,085,822	22,271,710

22 Obligations under finance leases to third parties

	Group 2011 £	Company 2011 £
Total future minimum lease payments		
No later than one year	12,592,686	-
Later than one year and no later than five years	61,275,117	-
Later than five years	82,392,583	-
Gross investment in finance leases	156,260,386	-
Future finance costs	(54,026,698)	-
Present value of lease obligations	102,233,688	-
Present value of minimum lease payments		
No later than one year	7,852,686	-
Later than one year and no later than five years	28,798,562	-
Later than five years	65,582,440	-
	102,233,688	-

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

22 Obligations under finance leases to third parties (continued)

These obligations relate to the headlease arrangement in respect of Class 365 rolling stock. The rolling stock is let on operating leases to third parties. The average effective borrowing rate for the year ended 31 December 2011 was 9.07%. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations is approximately equal to the carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets with a carrying value of £61,584,433.

23 Borrowings

	Group	Company
	2011	2011
	£	£
No later than one year		
Bank loans	138,000,000	-
Interest accrued	13,364,411	-
Eversholt Rail (UK) Limited	-	67,770,090
Eversholt Investment Group (Luxembourg) Sarl	405,509,872	405,509,872
Capitalised fees	(3,322,522)	-
	553,551,761	473,279,962
Payable later than one year		
Bank loans	408,950,000	-
Bonds	1,100,000,000	-
Other loan	5,219,608	-
Profit participating preference shares	25,000,000	-
Capitalised fees	(17,824,497)	-
	1,521,345,111	-
	2,074,896,872	473,279,962

Fees incurred on raising finance have been capitalised. These fees will be amortised over the term of the borrowings.

The Profit Participating Shares ("PPS") carry a right to quarterly dividends. The PPS dividend element has two parts. The first part confers a right to a LIBOR based return. The second part confers a right to 0.5% of post-tax profits arising in the issuing company during the reference period. The PPS are classified as a non-current liability as the holders of these shares have a fixed entitlement to a dividend.

The Bank loans are from a consortium of banks, £138million is repayable and redrawn on each interest reset date, with a final repayment date on December 2016. The remaining bank loans are fully repayable by 2nd December 2016. Interest on these loans is currently charged at Libor plus 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 of 6.4% per annum. £400 million of the Bonds are repayable from 2014 to 2035 and pay a fixed rate semi-annual coupon of 6.7% per annum.

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 Group has granted security over all of its assets to obtain external financing by way of bonds and loans.

The loans with Eversholt Investment Group (Luxembourg) Sarl are unsecured and have no fixed repayment terms and are therefore technically repayable on demand although the amount that the Group can pay in each accounting period is limited by the terms of its external financing agreements. Interest is charged on the loan at 14.06%.

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

24 Provisions

	Group 2011 £	Company 2011 £
Payable no later than one year		
Engineering costs	339,125	-

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.

	Group 2011 £	Company 2011 £
Transfer from other group undertakings	666,143	-
Utilised	(180,814)	-
Provision reversed	(146,204)	-
Balance at 31 December	339,125	-

25 Deferred revenue

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

	Group 2011 £	Company 2011 £
Deferred revenue		
Arising in respect of maintenance contracts	87,598,588	-

The deferred revenue arises in respect of the Group's obligations in respect of maintenance contracts in certain leases.

26 Share capital

	Company 2011 £
Authorised, allotted, called up and fully paid	
12,000 Ordinary shares of £1 each	12,000

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

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

27 Notes to the cash flow statement

	Group 2011 £	Company 2011 £
Loss before tax	(160,494,801)	(65,937,246)
Adjustments for:		
- Depreciation	170,901,991	2,532
- Fair value adjustment on derivative financial instruments	63,692,751	-
- Profit on disposal of property, plant and equipment	(2,062,646)	-
- Unwinding of capitalised finance charges	14,607,573	-
- Capitalisation of finance charges	(4,855,328)	-
- Interest on borrowings	169,127,715	59,361,003
Operating cash flows before movements in working capital	250,917,255	(6,573,711)
Decrease in finance lease receivable	218,539	-
(Increase)/decrease in inventory	267,440	-
(Increase)/decrease in trade and other receivables	(60,257,602)	(73,110)
Increase/(decrease) in deferred revenue	16,046,297	-
Increase/(decrease) in provisions	(322,974)	-
Increase/(decrease) in trade and other payables	9,609,547	6,162,998
Net cash generated by operations	216,478,502	(483,823)

28 Capital commitments

In respect of capital expenditure:

	Group 2011 £	Company 2011 £
Authorised and contracted	19,547,300	-

The capital expenditure is in respect of enhancements to existing rolling stock.

29 Fair values of financial assets and liabilities

Except where disclosed elsewhere, there are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2011.

30. Retirement benefit obligations

30.1 General description of scheme

Final salary pension

Eversholt Rail (UK) Limited, a group undertaking, provides a defined benefit pension scheme to its employees.

The Eversholt Rail (UK) Limited section (the "Section") is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme.

The staff and the responsibility for the Section were transferred to Eversholt Rail (UK) Limited on 7 April 2010 from the previous employer. A contribution of £5.4m was also received from the previous employer. Eversholt Investment Limited commenced trading on 4 December 2010.

The Section is a shared cost arrangement whereby Eversholt Rail (UK) Limited is only responsible for a share of the cost. The figures reported below therefore represent only Eversholt Rail (UK) Limited's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the period are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the period.

Employer contributions for the period ending 31 December 2011 are 27.84% of Section Pay. This rate is expected to continue until 30 June 2012 when the employer contribution rate will fall to 19.7% of the long-term joint contribution rate of 29.7% of Section Pay.

The Section is open to new members.

30.2 Membership data

	31 December 2011	4 December 2010
Active members		
Number	35	37
Annual payroll (£)	2,013,000	2,039,000
Average age	48.9	48.2
Deferred members		
Number	49	51
Total deferred pensions (£)	289,000	306,000
Average age	48.6	48.5
Pensioner members (including dependants)		
Number	30	26
Annual pension payroll (£)	687,000	627,000
Average age	63.7	62.8

30.3 Summary of assumptions

	31 December 2011 % pa	4 December 2010 % pa
Discount rate	4.8	5.7
Expected return on Section assets **	6.9	7.2
Price inflation (RPI measure)	3.1	3.5
Increases to deferred pensions (CPI measure)	2.1	2.8
Pension increases (CPI measure)	2.1	2.8
Salary increases *	4.6	5.0

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

30 Retirement benefit obligations (continued)

30.3 Summary of assumptions (continued)

* Plus 0.4% per annum promotional salary scale.

** The expected return on Section assets assumption was determined as the average of the expected returns on the assets held by the Section on the accounting date. The rates of return for each class are set out in the table below and were determined as follows:

- **Equities and property:** The rate adopted is consistent with the median assumption used in the Asset Liability Modelling work carried out by our advisers,
- **Bonds:** The overall rate has been set to reflect the yields on the bond holdings, adjusted where appropriate for the risk of default.
- **Other assets:** This class is mostly made of cash holdings and the rate adopted reflects current short-term returns on such deposits.

	Long-term rate of return expected on 31 December 2011 % pa	**Value at 31 December 2011 £**	**Long-term rate of return expected on 4 December 2010 % pa**	**Value at 4 December 2010 £**
Growth assets	**7.2**	**26,864,000**	7.7	21,440,000
Government bonds	**2.8**	**2,166,000**	4.3	1,980,000
Non-Government bonds	**N/A**	**-**	5.1	2,030,000
Property	**N/A**	**-**	7.4	2,660,000
Other assets	**2.8**	**44,000**	3.7	350,000
	6.9	**29,074,000**	7.2	28,460,000

30.4 Summary of assumptions

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

		31 December 2011	**4 December 2010**
Male currently age 65	Pension under £9,300 pa or pensionable pay under £35,000 pa	**20.5**	19.8
	Others	**22.6**	21.5
Male currently age 45	Pension under £9,300 pa or pensionable pay under £35,000 pa	**22.8**	22.2
	Others	**24.9**	23.7
Female currently age 65	Pension under £3,300 pa or pensionable pay under £35,000 pa	**22.4**	21.7
	Others	**24.8**	22.7
Female currently age 45	Pension under £3,300 pa or pensionable pay under £35,000 pa	**24.9**	23.2
	Others	**27.1**	24.2

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

30 Retirement benefit obligations (continued)

30.5 Defined Benefit Asset at end of period

	Period ended 31 December 2011 £	Period ended 4 December 2010 £
Detailed Benefit Obligation at end of period	**28,260,000**	25,780,000
Value of assets at end of period	**29,074,000**	28,460,000
Funded Status at end of period	**814,000**	2,680,000
Adjustment for the members' share of surplus	**(325,000)**	(1,070,000)
Defined Benefit Asset at end of period	**489,000**	1,610,000

30.6 Reconciliation of Employer share of Defined Benefit Asset

	Period ended 31 December 2011 £
Opening Defined Benefit Asset	1,610,000
Employer's share of pension expense	(45,000)
Employer contributions	547,000
Total loss recognised in statement of comprehensive income	(1,623,000)
Closing Defined Benefit Asset	489,000

30.7 Disclosed pension expense

	Period Ended 31 December 2011 £
Employer's share of service cost (included in administrative expense)	415,000
Employer's share of interest cost (included in pension finance credit)	982,000
Employer's share of expected return on assets (included in pension finance credit)	(1,352,000)
Employer's share of pension expense	45,000

30.8 Reconciliation of Employer share of return on assets

	Period ended 31 December 2011 £
Expected return on Section assets	1,352,000
Gain on Section assets	(1,348,000)
Actual return on Section assets	(4,000)

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

30 Retirement benefit obligations (continued)

30.9 Reconciliation of Defined Benefit Obligation

	Period ended 31 December 2011 £
Opening Defined Benefit Obligation	25,780,000
Service Cost	672,000
Interest Cost	1,630,000
Loss on Defined Benefit Obligation	296,000
Actual benefit payments	(118,000)
Closing Defined Benefit Obligation	28,260,000

30.10 Reconciliation of value of assets

	Period ended 31 December 2011 £
Opening value of section assets	28,460,000
Expected return on assets	2,253,000
Gain on assets	(2,250,000)
Employer contributions	547,000
Employee contributions	182,000
Actual benefit payments	(118,000)
Closing value of Section asset	**29,074,000**

Tables 30.9 and 30.10 above show the movement in the assets and liabilities of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures which reflect the Group's share of the assets and liabilities associated with the section.

31 Risk management

The Group 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. In addition the Group is exposed to residual value risk from its ownership of rail assets.

The management of 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 Group'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 Group 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.

Notes to the consolidated and separate financial statements (continued)
for the period ended 31 December 2011

31 Risk management (continued)

Capital risk management

The Board actively monitors the capital structure of the Group to ensure that all Group entities are able to continue as going concerns. 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 capital structure of the Group consists of debt, which includes borrowings, Cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group 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 the Board considers the cost of capital and the risks associated with each class of capital. The Board actively monitors the cost 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. It arises principally from lease receivables.

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

No lease receivables are in arrears.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group 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 Group's assets, net of deferred tax, are funded principally by borrowings from a parent undertaking and third parties.

The following is an analysis of undiscounted cash flows payable under financial liabilities by remaining contractual maturities at the end of the reporting period:

Group

	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	12,592,432	19,281,044	-	1,736,608	6,678,172	10,866,264
Trade and other receivables	41,639,497	41,639,497	-	24,676,917	16,962,580	-
	54,231,929	60,920,541	-	26,413,525	23,640,752	10,866,264
Cash and cash equivalents	192,053,644	192,053,644	132,253,644	-	-	59,800,000
Financial liabilities						
Available for sale financial instruments						
- Derivative financial instruments	(73,187,049)	12,084,654	-	1,464,610	18,529,105	(7,909,061)
Other financial liabilities – amortised cost						
- Trade and other payables	(52,085,822)	(52,085,822)	-	(52,085,822)	-	-
- Current tax liabilities	(5,047,860)	(5,047,860)	-	(5,047,860)	-	-
- Obligations under finance lease	(102,233,688)	(156,260,386)	-	(12,592,686)	(61,275,117)	(82,392,583)
- Borrowings	(2,096,043,891)	(3,127,024,619)	(405,509,872)	(229,705,569)	(777,830,573)	(1,713,978,604)
	(2,255,411,261)	(3,340,418,687)	(405,509,872)	(299,431,937)	(839,105,690)	(1,796,371,187)
Total financial instruments	(2,082,312,737)	(3,075,359,848)	(273,256,228)	(271,553,802)	(796,935,833)	(1,733,613,984)

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

31 Risk management (continued)

Liquidity risk management (continued)

Company

	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	23,398,949	23,398,949	-	23,398,949	-	-
- Trade and other receivables	73,110	73,110	-	73,110	-	-
	23,472,059	**23,472,059**	**-**	**23,472,059**	**-**	**-**
Cash and cash equivalents	26,553,010	26,553,010	26,553,010	-	-	-
Financial liabilities						
Non – derivative instruments – amortised cost						
- Trade and other payables	(22,271,710)	(22,271,710)	-	(22,271,710)	-	-
- Borrowings	(473,279,963)	(473,279,963)	(473,279,963)	-	-	-
	(495,551,673)	(495,551,673)	(473,279,963)	(22,271,710)	-	-
Total financial instruments	**(445,526,604)**	**(445,526,604)**	**(473,279,963)**	**27,753,354**	**-**	**-**

Only the derivative financial instruments are measured subsequent to initial recognition at fair value. All derivative financial instruments are grouped into level one, based on the degree to which the fair value is observable. Level one fair value measurements are these derived from quoted prices unadjusted, in active markets for identical assets or liabilities.

Bonds with a carrying value of £1,100,000,000 have a fair value of £1,223,492,300 and would all 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.

Market Risk

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

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at fixed and floating interest rates. The risk is managed by the Group to maintain an appropriate mix between fixed and floating rate borrowings by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with hedging policy and defined risk appetite

Interest rate Sensitivity Analysis

The impact of a 50 basis points increase in LIBOR would have resulted in an increase in interest expense of £31,026. A 50 basis points upwards parallel shift in the yield curve would have led to an increase in negative fair value adjustment (loss) of £25,419,166 in the derivative financial instruments.

Notes to the consolidated and separate financial statements (continued)

for the period ended 31 December 2011

32 Operating lease arrangement

The group as lessor

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

	Group 2010 £	Company 2010 £
Within one year	292,731,594	-
2-5 years	607,998,273	-
Over 5 years	198,071,959	-
	1,098,801,826	-
Aggregate operating lease receivables	352,601,523	-

33 Related-party transactions

33.1 Identity of related parties

The ultimate parent undertaking (which is the ultimate controlling party) is Eversholt Investment Group (Luxembourg) Sarl.

33.2 Transactions with related parties

Loans with Eversholt Investment Group (Luxembourg) Sarl are more fully described in note 23. Interest on these loans is disclosed in note 6.

Directors' emoluments are disclosed in note 10.

34 Contingent liabilities

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

35 Subsequent events

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