Eversholt Investment Limited
(Non-statutory)

Audited, Non-Statutory, Consolidated Financial Statements for the year ended 31 December 2011

Registered No: IR490363

Annual Financial Statements (Non-statutory)
for the year ended 31 December 2011

Contents

Directors' report (Non-statutory)
for the year ended 31 December 2011

Presentation of information

These Financial Statements are non–statutory financial statements and have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents entered into by the Company and its subsidiaries on 4 November 2010. The Security Group (the 'Group') consists of Eversholt Investment Limited and its subsidiaries except for Eversholt Rail (365) Limited. Users of these financial statements should particularly note the basis of consolidation set out in Note 2.1.

Principal activities

The Company was incorporated on 19 October 2010 to acquire the Eversholt Rail Group (the "Group"). On this basis, the comparative figures presented herein are for the period from 19 October 2010 to 31 December 2010.

The principal activity of the Group is to own and lease rolling stock and other rail assets in the United Kingdom ("UK").

Business review

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

Risk management

The Group 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 29 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 results for the Group for the year are as detailed in the income statement on page 6.

The key performance indicator used by the Directors 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 year ended 31 December 2011 (31 December 2010: nil). Dividend payments will be reflected in the financial statements in the period in which they are declared.

Directors report (Non-statutory) (continued)
for the year ended 31 December 2011

Directors

The Directors who served during the year were as follows:

Name

B T Hayden
C Cullen
M Walsh
R A Chambers (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 year 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 Auditor, KPMG Chartered Accountants will continue in office.

Directors responsibility and approval of the annual financial statements (Non-statutory)

for the year ended 31 December 2011

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 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 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.

These financial statements were approved by the Board of Directors on 16 February 2012 and were signed on its behalf by:

C Cullen
Director

Michael Walsh
M Walsh
Director

Registered Office:
Regus House
Harcourt Road
Dublin 2
Ireland

Date: 16 February 2012

Independent Auditor's Report to the Members of Eversholt Investment Limited (Non-statutory)

for the year ended 31 December 2011

We have audited the non-statutory financial statements of Eversholt Investment Limited for the year ended 31 December 2011 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of cashflows, Consolidated statement of changes in equity, Company statement of financial position and the related notes. These financial statements have been prepared under the accounting policies set out therein and for the reasons set out in Note 2.1.

This report is made solely to the company's directors in accordance with the terms of our engagement letter. Our audit work has been undertaken so that we might state to the company's directors those matters opined upon below 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 directors 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 4 sets out the directors' responsibilities for preparing the non-statutory financial statements in accordance with the accounting policies of the company.

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 have been prepared in accordance with the company's accounting policies.

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 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 have been prepared in accordance with the accounting policies 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 income statement (Non-statutory)
for the year ended 31 December 2011

	Notes	Group Year ended 31 December 2011 £	Group Period ended 31 December 2010 £
Revenue			
Finance lease income		**1,151,277**	94,696
Operating lease income		**257,774,459**	21,694,304
Maintenance income		**78,715,217**	280,186
Other revenue		**2,343,477**	92,653
Total income		**339,984,430**	22,161,839
Cost of sales	*4*	**(224,397,886)**	(14,553,932)
Gross profit		**115,586,544**	7,607,907
Finance income	*5*	**785,885**	58,271
Finance expenses	*6*	**(162,062,415)**	(12,878,995)
Net fair value (loss)/gain on derivatives		**(70,307,014)**	6,614,263
Pension finance credit	*28.6*	**350,000**	20,000
		(115,647,000)	1,421,446
Acquisition costs		**-**	(28,683,665)
Administrative expense	*7*	**(12,929,075)**	(1,680,941)
Disposal of property, plant and equipment		**2,062,646**	-
Loss before tax		**(126,513,429)**	(28,943,160)
Income tax credit/(expense)	*10*	**22,093,212**	(1,597,974)
Loss for the year/period		**(104,420,217)**	(30,541,134)

There were no discontinued or discontinuing operations during the year.

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	Group Year ended 31 December 2011 £	Group Period ended 31 December 2010 £
Loss for the year/period		**(104,420,217)**	(30,541,134)
Other comprehensive expense			
Actuarial losses on defined benefit scheme	*28.5*	**(953,000)**	(670,000)
Tax in respect of actuarial losses on defined benefit scheme		**262,325**	180,900
Total comprehensive expense for the year/period		**(105,110,892)**	(31,030,234)

Michael Wadh

Consolidated statement of financial position (Non-statutory)
for the year ended 31 December 2011

		Group	
		2011	**2010**
Assets	***Notes***	**£**	**£**
Non-current assets			
Property, plant and equipment	*11*	**2,054,646,106**	2,110,969,455
Finance lease receivables	*12*	**11,930,900**	12,568,072
Trade and other receivables	*13*	**8,276,887**	11,365,598
Derivative financial instruments	*14*	**-**	14,707,325
Deferred tax asset	*15*	**23,829**	14,760
Investment in subsidiary	*16*	**2,834,620**	2,834,620
		2,077,712,342	2,152,459,830
Current assets			
Inventories	*17*	**2,252,058**	2,500,776
Finance lease receivables	*12*	**661,532**	615,427
Trade and other receivables	*13*	**24,534,322**	11,484,476
Cash and cash equivalents	*18*	**192,053,644**	86,080,392
		219,501,556	100,681,071
Total assets		**2,297,213,898**	**2,253,140,901**
Liabilities and equity			
Current liabilities			
Trade and other payables	*19*	**49,597,887**	36,387,059
Current tax liabilities		**6,180,272**	18,379,132
Borrowings	*20*	**553,551,761**	457,949,001
Derivative financial instruments	*14*	**554,871**	-
Amounts owed to Eversholt Rail (365) Limited		**27,160,024**	28,332,172
Provisions	*22*	**339,125**	222,000
		637,383,940	541,269,364
Non-current liabilities			
Borrowings	*20*	**1,521,345,111**	1,512,738,009
Deferred tax	*15*	**100,723,207**	135,257,310
Deferred revenue	*21*	**87,598,588**	71,552,291
Provisions	*22*	**-**	440,099
Derivative financial instruments	*14*	**72,632,178**	9,242,062
		1,782,299,084	1,729,229,771
Total liabilities		**2,419,683,024**	2,270,499,135
Equity			
Share capital	*23*	**12,000**	12,000
Share premium account		**13,660,000**	13,660,000
Accumulated deficit		**(136,141,126)**	(31,030,234)
Total equity		**(122,469,126)**	(17,358,234)
Total equity and liabilities		**2,297,213,898**	**2,253,140,901**

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

Chris Cullen
Director
Company registration number: IR 490363

Michael Walsh
Director

Consolidated statement of changes in equity (Non-statutory)
for the year ended 31 December 2011

Group

	Called up share capital £	Share premium £	Accumulated deficit £	Total shareholders' equity £
Balance at 19 October 2010	-	-	-	-
Share capital issued	12,000	13,660,000	-	13,672,000
Loss for the period	-	-	(30,541,134)	(30,541,134)
Actuarial losses on defined benefit scheme after tax	-	-	(489,100)	(489,100)
At 31 December 2010	**12,000**	**13,660,000**	**(31,030,234)**	**(17,358,234)**
Loss for the year	**-**	**-**	**(104,420,217)**	**(104,420,217)**
Actuarial losses on defined benefit scheme after tax	**-**	**-**	**(690,675)**	**(690,675)**
Balance at 31 December 2011	**12,000**	**13,660,000**	**(136,141,126)**	**(122,469,126)**

Consolidated statement of cash flows
for the year ended 31 December 2011

	Notes	Group Year ended 31 December 2011 £	Group Period ended 31 December 2010 £
Net cash flow utilised in operating activities	***24***	**257,241,801**	(48,171,044)
Tax paid		**(24,386,495)**	-
Interest received		**785,885**	-
Realised gain on derivative instruments		**8,345,297**	-
		241,986,488	(48,171,044)
Investing activities			
Acquisition of property, plant and equipment		**(104,201,153)**	(12,554,165)
Acquisition of subsidiaries		**-**	(398,953,691)
Proceeds from disposal of property, plant and equipment		**10,903,001**	-
Net cash utilised in investing activities		**(93,298,152)**	(411,507,856)
Financing activities			
Loans raised		**517,176,152**	434,174,454
Borrowings repaid		**(430,760,230)**	-
Interest paid		**(127,958,858)**	(1,207,644)
Payment to Eversholt Rail (365) Limited		**(1,172,148)**	(392,490)
Proceeds on issue of shares		**-**	13,672,000
Net cash generated by financing activities		**(42,715,084)**	446,246,320
Net decrease in cash and cash equivalents		**105,973,252**	(13,432,580)
Cash and cash equivalents at beginning of year		**86,080,392**	-
Cash and cash equivalents carried forward/acquired		**-**	99,512,972
Cash and cash equivalents at end of year/period	***18***	**192,053,644**	86,080,392

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 Group are set out on page 2.

2 Basis of Preparation

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

2.1 Basis of consolidation

The consolidated financial statements of Eversholt Investment Limited and its subsidiaries (the Group), except for Eversholt Rail (365) Limited have been prepared solely for the purpose of meeting the reporting requirements of the Financing Documents dated 4 November 2010 entered into by the Company and certain of its subsidiaries.

The Group's interest in Eversholt Rail (365) Limited is not consolidated but stated at cost. All other 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.

Other than Eversholt Rail (365) Limited entities that are controlled by Eversholt Investment Limited are consolidated until the date that control ceases.

All inter-company transactions are eliminated on consolidation, other than transactions with Eversholt Rail (365) Limited.

2.2 Compliance with International Financial Reporting Standards

The consolidated financial statements of Eversholt Investment Limited have been prepared on the historical cost basis except for the revaluation of derivative financial instruments. Except for the disaggregation of Eversholt Rail (365) Limited 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 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. Accordingly, the consolidated financial statements of Eversholt Investment Limited for the year ended 31 December 2011 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU, except as noted above.

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 Basis of Preparation (continued)

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 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

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

2.2.2 IFRS 10 Consolidated Financial statements

This is a new standard that replaces the consolidation requirements in *SIC 12 Consolidation – special purpose entities* (SIC 12) and *IAS 27 Consolidated and Seperate 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 an impact on the Group financial statements.

2.2.3 FRS 13 Fair Value Measurement

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

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and is not expected to have a significant impact on the Group 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 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB (continued)

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 results or net assets of Eversholt Investment Limited when adopted.

2.3 Going concern

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

3 Summary of significant accounting policies

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

3.1 Finance 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 and expense 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 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.

3 Summary of significant accounting policies (continued)

3.2 Interest income and expense (continued)

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.

3.3 Fees and commission income

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

3.4 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.

3.5 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 Summary of significant accounting policies (continued)

3.6 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.

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.

3.7 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.

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

3 Summary of significant accounting policies (continued)

3.8 Financial instruments

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

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

3.8.1 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.

3.8.2 Cash and cash equivalents

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

3.8.3 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.

3.8.4 Impairment of financial assets

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

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

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 Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

3.8.5 Offsetting financial assets and financial liabilities

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

3.8.6 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 year ended 31 December 2011, the Group did not hold any derivatives that were designated as hedging instruments.

3.8.7 Determination of fair value

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

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

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

3.9 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.

3.10 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.

3.11 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 revison affects both current and future periods.

3 Summary of significant accounting policies (continued)

3.11.1 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.

3.11.2 Depreciation

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

3.11.3 Valuation of defined benefit retirement obligation

In making their estimate of the valuation of the defined benefit retirement obligations the Directors have made a number of assumptions. These assumptions are more fully described in note 28.

3.12 Fair value of derivative financial instrument

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.

3.13 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.

3.14 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.

3.15 Inventories

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

Notes to the Annual Financial Statements (Non-statutory) (continued)

for the year ended 31 December 2011

3 Summary of significant accounting policies (continued)

3.16 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 provison 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.

3.17 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	
	Year ended 31 December 2011	**Period ended 31 December 2010**
	£	**£**
Depreciation	**151,247,060**	11,327,171
Maintenance cost	**72,902,107**	3,208,040
Write down in the value of inventories	**248,719**	18,721
	224,397,886	14,553,932

5 Finance income

	Group	
	Year ended 31 December 2011	**Period ended 31 December 2010**
	£	**£**
Bank interest	**785,885**	58,271

6 Finance expense

	Group	
	Year ended 31 December 2011	**Period ended 31 December 2010**
Interest and other expenses	**£**	**£**
Interest payable to Eversholt Investment Group (Luxembourg) Sarl	**(59,361,003)**	(6,042,163)
Profit participating preference share dividend	**(645,307)**	(33,802)
Interest payable on derivatives	**(7,346,846)**	(1,126,078)
Interest payable on bank loans	**(13,628,057)**	(1,736,424)
Interest payable on bonds	**(66,283,397)**	(3,293,184)
Other finance costs	**(154,986)**	(647,344)
Unwinding of capitalised borrowing costs	**(14,607,573)**	-
Interest payable to Eversholt Rail (365) Limited	**(35,246)**	-
	(162,062,415)	(12,878,995)

Borrowing costs included in the cost of qualifiying assets during the year arose on the inter-company loans.

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

7 Administrative expense
Administrative expenses include:

	Group Year ended 31 December 2011 £	Period ended 31 December 2010 £
Foreign exchange loss	**(830)**	(2,615)
Depreciation	**(437,088)**	(2,532)
Defined contribution pension costs	**(294,976))**	(36)
Audit fees		
- For 2011 audit	**(139,150)**	(8,300)
- For payroll services	**(2,466)**	(2,466)

8 Staff numbers and costs

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

	Group Year ended 31 December 2011 Number	Period ended 31 December 2010 Number
Directors	**3**	3
Operations	**47**	45
Administration	**39**	34
	89	82

The prior period being from 4 December 2010, which represents the date on which the Group commenced trading. The aggregate payroll costs of these persons were as follows:

	Group Year ended 31 December 2011 £	Period ended 31 December 2010 £
Wages and salaries	**6,756,555**	486,955
Social security costs	**811,529**	47,262
Contributions to defined contribution pension scheme	**294,976**	20,180
Expenses related to defined benefit pension scheme	**35,000**	10,000
	7,898,060	564,397

9 Directors' emoluments

	Group Year ended 31 December 2011 £	Period ended 31 December 2010 £
Directors' emoluments for services to the Company	**131,578**	20,914
Reimbursment of expenses	**1,861**	-

None of the Directors are members of the defined benefit scheme nor do they have any share options or interests in the share capital of the Company.

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

10 Income tax credit/(expenses)

	Note	Group Year ended 31 December 2011 £	Group Period ended 31 December 2010 £
Current tax			
Irish Corporation tax			
- On current period profit		**16,057**	964
Overseas tax			
- On current period profit		**12,171,578**	447,675
		12,187,635	448,639
Deferred tax			
Origination and reversal of temporary differences	***15***	**(34,280,847)**	1,149,335
Total income tax credit		**(22,093,212)**	1,597,974

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% (31 December 2010: 28%).

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

	Group Year ended 31 December 2011 £	Group Period ended 31 December 2010 £
Taxation at corporation tax rate of 12.5%	**(15,908,917)**	(3,617,895)
Amounts not deductible for tax purposes	**8,148,098**	4,355,635
Income not taxable for tax purposes	**(6,170,488)**	(9,005)
Change in tax rates prior year adjustment	**499,879**	-
Effects of taxing overseas profits at different rates	**(8,661,784)**	869,239
Tax expense	**(22,093,212)**	1,597,974

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 £262,235 (31 December 2010: £180,900) increase in total comprehensive income.

11 Property, plant and equipment

	Other assets £	Operating lease assets - assets in the course of construction £	Operating lease assets - rolling stock and other railway assets £	Total £
Cost				
Additions (acquired through business combinations)	2,052,789	82,725,169	2,037,611,804	2,122,389,762
Transfers	-	(9,830,680)	9,830,680	-
Balance at 31 December 2010	2,052,789	72,894,489	2,047,442,484	2,122,389,762
Transfers	-	(72,894,489)	72,894,489	-
Additions	226,340	-	103,974,813	104,201,153
Disposals	(1,018)	-	(10,240,820)	(10,241,838)
Balance at 31 December 2011	**2,278,111**	**-**	**2,214,070,966**	**2,216,349,077**

11 Property, plant and equipment (continued)

	Other assets	Operating lease assets - assets in the course of construction	Operating lease assets - rolling stock and other railway assets	Total
Depreciation	**£**	**£**	**£**	**£**
Charge for the period	93,136	-	11,327,171	11,420,307
Balance at 31 December 2010	93,136	-	11,327,171	11,420,307
Charge for the year	437,088	-	151,247,060	151,684,148
Disposals	(1,018)	-	(1,400,466)	(1,401,484)
Balance at 31 December 2011	**529,206**	**-**	**161,173,765**	**161,702,971**
Net carrying value				
Carrying value at 31 December 2011	1,748,905	-	2,052,897,201	2,054,646,106
Carrrrying value at 31 December 2010	1,959,653	72,894,489	2,036,115,313	2,110,969,455

Within property, plant and equipment is capitalised interest of £1,861,309 (31 December 2010: £307,694). The capitalisation rate used is the rate of interest attaching to the Group's borrowings attributable to the construction of rolling stock.

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.

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

12 Finance lease receivables

	Group	
	2011	**2010**
	£	**£**
Gross investment in finance leases		
Amounts falling due:		
No later than one year	**1,736,608**	1,750,569
Later than one year and no later than five years	**6,678,172**	6,799,398
Later than five years	**10,866,263**	11,978,041
Gross investment in finance leases	**19,281,043**	20,528,008
Unearned finance income	**(6,688,611)**	(7,344,509)
Net investment in finance leases less provisions	**12,592,432**	13,183,499
Amortisation of finance lease receivables:		
Amounts falling due:		
No later than one year	**661,532**	615,427
Later than one year and no later than five years	**3,379,084**	3,251,470
Later than five years	**8,551,816**	9,316,602
Present value of minimum lease receivables	**12,592,432**	13,183,499
Fair value of amounts receivable under finance leases	**13,157,854**	13,129,147
Aggregate finance lease rentals receivable in the period	**1,151,277**	106,228

12 Finance lease receivables (continued)

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 the 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% (period ended 31 December 2010: 6% and 10%) per annum.

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

13 Trade and other receivables

	Group	
	2011	**2010**
	£	**£**
Receivable no later than one year:		
Trade receivables	**2,074,491**	616,271
Other receivables	**313,168**	573,384
Retirement benefit asset (Note 28.4)	**489,000**	970,000
Maintenance prepayment	**21,657,663**	9,324,821
	24,534,322	11,484,476
Receivable later than one year:		
Maintenance prepayment	**8,276,887**	11,365,598
	32,811,209	22,850,074

14 Derivative financial instruments

	2011	**2010**
Current	**£**	**£**
Forward exchange contracts - assets	**-**	14,707,325
Forward exchange contracts - liabilities	**554,871**	9,242,062
Non-current		
Forward exchange contracts - liabilities	**72,632,178**	-

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

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

15 Deferred tax

	Group 2011 £	2010 £
Leasing transactions temporary differences:		
Balance at beginning of the year/period	**135,242,550**	-
Acquisition of subsidiaries	**-**	134,274,115
Income statement (credit)/charge	**(34,280,847)**	1,149,335
Other comprehensive income: actuarial movement on retirement benefit obligations	**(262,325)**	(180,900)
Balance at end of the year/period	**100,699,378**	135,242,550

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

Deferred tax assets and liabilities are offset where the Group 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 £	2010 £
Deferred tax asset	**(23,829)**	(14,760)
Deferred tax liability	**100,723,207**	135,257,310
	106,699,378	135,242,550

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.

16 Investments in subsidiary

	Group 2011 £	2010 £
Cost		
Balance at beginning of the year	**2,834,620**	-
Additions	**-**	2,834,620
At 31 December	**2,834,260**	2,834,620

The investment represents the investment to Eversholt Rail (365) Limited.

16 Investments in subsidiary (continued)

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

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2011	Ownership Percentage 2010
European Rail Finance Holdings Limited	Ordinary Shares	Ireland	Investment	100	100
European Rail Finance Limited*	Ordinary Shares	Ireland	Leasing	100	100
European Rail Finance (GB) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail Holdings (UK) Limited*	Ordinary Shares	England	Investment	100	100
Eversholt Rail (UK) Limited*	Ordinary Shares	England	Management services	100	100
Eversholt Depot Finance (UK) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (365) Limited*#	Ordinary Shares	England	Leasing	100	100
Eversholt Rail (380) Limited*	Ordinary Shares	England	Leasing	100	100
Eversholt Finance Holdings Limited*	Ordinary Shares	England	Investment	100	100
Eversholt Funding plc*	Ordinary Shares	England	Provision of finance to the Eversholt Rail Group	100	100

*Indirect subsidiaries

The results of Eversholt Rail (365) Limited are excluded from the consolidation, and as such are included as net investments in subsidiary as above.

17 Inventories

	Group 2011 £	Group 2010 £
Rolling stock spares	**2,252,058**	2,500,776

Write down in the value of inventories recognised within cost of sales in the Consolidated Income Statement as an expense amounted to £248,719 (31 December 2010: £18,721).

Notes to the Annual Financial Statements (Non-statutory) (continued)

for the year ended 31 December 2011

18 Cash and cash equivalents

Cash and cash equivalents are analysed as:

	Group	
	2011	**2010**
	£	**£**
Bank accounts	**192,053,644**	86,080,392

Within cash and cash equivalents there is a deposit of £26.5million (31 December 2010: £26.4 million) which provides security for the Profit Participating Shares issued by one of the group undertakings. £0.5million is retricted in terms of the agreement with the Law Debenture Trust Corporation Plc.

19 Trade and other payables

	Group	
	2011	**2010**
	£	**£**
Trade payables	**5,563,867**	10,982,861
Lease rentals received in advance	**13,935,162**	4,985,624
Maintenance, acquisition and administrative accruals	**7,671,892**	14,067,787
Interest accrual	**22,426,966**	6,350,787
	49,597,887	36,387,059

20 Borrowings

	Group	
	2011	**2010**
	£	**£**
No later than one year		
Bank loans	**138,000,000**	25,165,672
Interest accrued	**13,364,411**	5,322,716
Capitalised fees	**(3,322,522)**	(5,240,968)
Loan from Eversholt Investment Group (Luxembourg) Sarl	**405,509,872**	432,701,581
	553,551,761	457,949,001
Payable later than one year		
Bank loans	**408,950,000**	808,283,176
Bonds	**1,100,000,000**	700,000,000
Other loan	**5,219,608**	5,113,129
Capitalised fees	**(17,824,497)**	(25,658,296)
Preference shares	**25,000,000**	25,000,000
	1,521,345,111	1,512,738,009
	2,074,896,872	1,970,687,010

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

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 non current liability as the holders of these shares have a fixed entitlement to a dividend.

20 Borrowings (continued)

The Bank loans are from a consortium of banks, £138million is repayable and redrawn on each interest reset date, with a final repayment date in December 2016. The remaining bank loans are repayable in instalments from December 2013 and 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 pays a fixed rate semi-annual coupon of 6.4% per annum. £400 million of the Bonds are repayable in 2035 and pays a fixed rate semi-annual coupon of 6.7% per annum.

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 agreement.

21 Deferred revenue

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

	Group	
	2011	**2010**
Deferred revenue	**£**	**£**
Arising in respect of maintenance contracts	**87,598,588**	71,552,291

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

22 Provisions

	Group	
	2011	**2010**
	£	**£**
Payable no later than one year:		
Engineering costs	**339,125**	222,000
Payable later than one year and not later than five years:		
Engineering costs	**-**	440,099
	339,125	662,099

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	**2010**
	£	**£**
Balance at beginning of the year	**662,099**	**-**
Transfer from other group undertakings during the period	**-**	666,143
Utilised	**(176,770)**	(4,044)
Provision reversed	**(146,204)**	-
At 31 December	**339,125**	662,099

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

23 Share capital

	Company	
	2011	2010
	£	£
Authorised, allotted, called up and fully paid		
12,000 Ordinary shares of £1 each	**12,000**	12,000

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

24 Notes to the cash flow statement

	Group	
	Year ended 31 December 2011	Period ended 31 December 2010
	£	£
Loss before tax	**(126,513,429)**	(28,943,160)
Adjustments for:		
- Depreciation	**151,684,148**	11,420,307
- fair value adjustment on derivative financial instrument	**70,307,014**	(5,465,263)
Profit on disposal of property, plant and equipment	**(2,062,646)**	-
Unwinding capitalised finance charges	**14,607,573**	-
Capitalisation of finance charges	**(4,855,328)**	-
Interest on borrowings	**147,299,856**	12,513,099
Operating cash flows before changes in working capital	**250,467,188**	10,475,017
(Increase)/decrease in finance lease receivable	**591,067**	(372,528)
(Increase)/decrease in inventory	**248,718**	18,721
(Increase)/decrease in trade and other receivables	**(9,961,135)**	(44,635,292)
Increase/(decrease) in deferred revenue	**16,046,297**	-
Increase/(decrease) in provisions	**(322,974)**	-
Increase/(decrease) in trade and other payables	**172,640**	7,293,072
Net cash generated by/(utilised in) operating activities	**257,241,801**	(48,171,044)

25 Capital commitments

In respect of capital expenditure:

	Group	
	2011	2010
	£	£
Authorised and contracted	**19,547,300**	75,262,000

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

Notes to the Annual Financial Statements (Non-statutory) (continued)

for the year ended 31 December 2011

26 Dividends

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

27 Fair value 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 and 31 December 2010.

28 Retirement benefit obligations

28.1 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.

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% (31 December 2010: 27.86%) 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.

28.2 Membership data

	31 December 2011	**31 December 2010**	**4 December 2010**
Active members			
Number	**35**	37	37
Annual payroll	**2,013,000**	2,039,000	2,039,000
Average age	**48.9**	48.3	48.2
Deferred members			
Number	**49**	51	51
Total deferred pensions	**289,000**	306,000	306,000
Average age	**48.6**	48.6	48.5
Pensioner members (including dependants)			
Number	**30**	26	26
Annual pension payroll	**687,000**	627,000	627,000

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

Average age	**63.7**	62.9	62.8

28 Retirement benefit obligations (continued)
28.3 Summary of assumptions

	31 December 2011 %pa	**31 December 2010 % pa**	**4 December 2010 % pa**
Discount rate	**4.8**	5.5	5.7
Expected return on Section assets **	**6.9**	7.3	7.2
Price inflation (RPI measure)	**3.1**	3.6	3.5
Increases to deferred pensions (CPI measure)	**2.1**	2.9	2.8
Pension increases (31 December 2010: CPI measure)	**2.1**	2.9	2.8
Salary increases *	**4.6**	5.1	5.0

* plus 0.4% pa 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 31 December 2010 % pa**	**Value at 31 December 2010 £**
Equities	**7.2**	**26,864,000**	7.8	21,480,000
Government bonds	**2.8**	**2,166,000**	4.3	2,100,000
Non-Government bonds	**N/A**	**-**	4.9	2,120,000
Property	**N/A**	**-**	7.5	2,860,000
Other assets	**2.8**	**44,000**	3.8	140,000
	6.9	**29,074,000**	7.3	28,700,000

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

28 Retirement benefit obligations (continued)
28.3 Summary of assumptions (continued)

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

		31 December 2011	31 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

28.4 Defined Benefit Asset at end of year/period

	Year Ended 31 December 2011 £	Period ended 31 December 2010 £
Detailed Benefit Obligation at end of year/period	**28,260,000**	27,090,000
Value of assets at end of year/period	**29,074,000**	28,700,000
Funded Status at end of year/period	**814,000**	1,610,000
Adjustment for the members' share of surplus	**(325,000)**	(640,000)
Defined Benefit Asset at end of year/period	**489,000**	970,000

28.5 Reconciliation of Employer share of Defined Benefit Asset

	Year ended 31 December 2011 £	Period ended 31 December 2010 £
Opening Defined Benefit Asset	**970,000**	1,610,000
Employer's share of pension expense	**(35,000)**	(10,000)
Employer contributions	**507,000**	40,000
Total loss recognised in statement of comprehensive income	**(953,000)**	(670,000)
Closing Defined Benefit Asset	**489,000**	970,000

28 Retirement benefit obligations (continued)

28.6 Disclosed pension expense

	Year ended 31 December 2011 £	Period ended 31 December 2010 £
Employer's share of Service Cost (included in administrative expense)	**385,000**	30,000
Employer's share of Interest Cost (included in pension finance credit)	**912,000**	70,000
Employer's share of expected return on assets (included in pension finance credit)	**(1,262,000)**	(90,000)
Settlement/Curtailment	**-**	-
Other/Past Service Cost Adjustment	**-**	-
Employer's share of pension expense	**35,000**	10,000

28.7 Reconciliation of return on assets

	Year ended 31 December 2011 £	Period ended 31 December 2010 £
Expected return on Section assets	**1,262,000**	90,000
Gain on Section assets	**(1,368,000)**	20,000
Actual return on Section assets	**(106,000)**	110,000

28.8 Reconciliation of Defined Benefit Obligation

	Year ended 31 December 2011 £	Period ended 31 December 2010 £
Opening Defined Benefit Obligation	**27,090,000**	25,780,000
Service Cost	**622,000**	50,000
Interest Cost	**1,520,000**	110,000
Loss on Defined Benefit Obligation	**(844,000)**	1,140,000
Actual benefit payments	**(128,000)**	10,000
Closing Defined Benefit Obligation	**28,260,000**	27,090,000

28.9 Reconciliation of value of assets

	Year ended 31 December 2011 £	Period ended 31 December 2010 £
Opening value of section assets	**28,700,000**	28,460,000
Expected return on assets	**2,103,000**	150,000
Gain on assets	**(2,280,000)**	30,000
Employer contributions	**507,000**	40,000
Employee contributions	**172,000**	10,000
Actual benefit payments	**(128,000)**	10,000
Closing value of Section asset	**29,074,000**	28,700,000

Tables 28.8 and 28.9 above show the movement in the assets and liabilities of the Section as a whole. Some of the figures therefore differ from these in the remaining disclosures which reflect the Group share of the assets and liabilities associated with the Section.

29 Risk management

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.

There has been no change to the group's exposure to market risks in the manner of which these risks are managed and measured.

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.

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, is described in this note.

Credit risk management

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

The 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.

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

29 Risk management (continued)
Liquidity risk management (continued)

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**	**19,281,043**	**-**	**1,736,608**	**6,678,172**	**10,866,263**
Trade and other receivables	**32,811,209**	**32,811,209**	**-**	**24,534,322**	**8,276,887**	**-**
	45,403,641	**52,092,253**	**-**	**26,270,930**	**14,955,059**	**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	**(49,597,887)**	**(49,597,887)**	**-**	**(49,597,887)**	**-**	**-**
- Current tax liabilities	**(6,180,272)**	**(6,180,272)**	**-**	**(6,180,272)**	**-**	**-**
- Borrowings	**(2,096,043,891)**	**(3,127,024,619)**	**(405,509,872)**	**(229,705,569)**	**(777,830,573)**	**(1,713,978,604)**
	(2,151,822,050)	**(3,182,802,778)**	**(405,509,872)**	**(285,483,728)**	**(777,830,573)**	**(1,713,978,604)**
Total financial instruments	**(1,931,773,655)**	**(2,926,572,227)**	**(273,256,228)**	**(257,748,188)**	**(744,346,409)**	**(1,651,221,401)**

	Carrying value	Contractual cash flows	On demand	Due within 1 year	Due between 1-5 years	Due after 5 years
	£	£	£	£	£	£
31 December 2010						
Financial assets						
Loans and receivables						
- Finance lease receivables	13,183,499	20,528,008	-	1,750,569	6,799,398	11,978,041
- Trade and other receivables	22,850,074	22,850,074	-	11,484,476	11,365,598	-
	36,033,573	43,378,082	-	13,235,045	18,164,996	11,978,041
Cash and cash equivalents	86,080,392	86,080,392	86,080,392	-	-	-
Financial liabilities						
Available for sale financial instruments						
- Derivative financial instruments	70,655,036	12,084,654	-	1,464,610	18,529,105	(7,909,061)
Other financial liabilities – amortised cost						
- Trade and other payables	(36,387,059)	(36,387,059)	-	(36,387,059)	-	-
- Current taxation	(18,379,132)	(18,379,132)	-	(18,379,132)	-	-
- Borrowings	(2,001,586,274)	(2,594,115,639)	(432,701,581)	(112,084,420)	(1,049,857,102)	(1,034,805,273)
	(2,056,352,465)	(2,648,881,830)	(432,701,581)	(166,850,611)	(1,049,857,102)	(1,034,805,273)
Total financial instruments	(1,863,583,464)	(2,507,338,702)	(346,621,189)	(152,150,956)	(1,013,163,001)	(1,030,736,293)

Notes to the Annual Financial Statements (Non-statutory) (continued)

for the year ended 31 December 2011

29 Risk management (continued)

Liquidity risk management (continued)

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 and by the use of interest rate swap contracts and fixed interest rate contracts. Hedging activities are evaluated regularly to align with contract rate views and defined risk appetite; ensuring the most cost effective hedging strategies are applied.

Interest rate sensitivity analysis

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

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

30. 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	
	2011	**2010**
	£	**£**
Within one year	**293,380,907**	278,511,824
2-5 years	**643,273,027**	860,842,184
Over 5 years	**198,071,958**	145,040,372
	1,134,725,892	1,284,394,380
Aggregate operating lease rentals receivable in the year/period	**257,774,459**	21,694,304

31 Related-party transactions

31.1 Identity of related parties

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

31.2 Transactions with related parties

Loans with Eversholt Investment Group are more fully described in note 20. Interest on these is disclosed in note 6.

Directors emoluments are disclosed in note 9.

32 Contingent liabilities

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

33 Subsequent events

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