

Eversholt Rail (380) Limited

Annual Financial Statements
for the year ended 31 December 2011

Registered No: 1139640

Annual financial statements
for the year ended 31 December 2011

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Directors' report

for the year ended 31 December 2011

Principal activities

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

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

Business review

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

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

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

Risk management

The financial risk management objectives and policies of the Company together with an analysis of the exposure to such risks, are set out in note 17 of the financial statements.

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

Performance

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

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

Future developments

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

Dividends

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

Going concern basis

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

Directors' report (continued)

for the year ended 31 December 2011

Directors

The Directors who served during the period were as follows:

Name

M B Kenny

S F Purves

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

Supplier payment policy

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

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the Group to provide the necessary capital resources which are therefore managed on a group basis. Lenders to Eversholt Funding plc have imposed restrictions on the distribution of capital outside the Eversholt Rail Group.

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

Disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware and the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditors

KPMG Audit Plc are deemed to be reappointed in accordance with an elective resolution made under Section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006.

Directors' responsibility and approval of the annual financial statements

for the year ended 31 December 2011

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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

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

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

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

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

The Company's annual financial statements were approved by the Board of Directors on 10 February 2012 and signed on their behalf by:



M B Kenny
Director

Registered Office
210 Pentonville Road
London
N1 9JY

Date: 10 February 2012

Independent Auditor's Report to the Members of Eversholt Rail (380) Limited
for the year ended 31 December 2011

We have audited the financial statements of Eversholt Rail (380) Limited for the year ended 31 December 2011 set out on pages 6 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

10 February 2012

Income statement

for the year ended 31 December 2011

	<i>Notes</i>	2011 £	2010 £
Revenue			
Finance lease income		-	152
Operating lease income		11,859,645	312,975
Maintenance fee income		116,572	-
Total revenue		11,976,217	313,127
Cost of sales	4	(4,481,759)	(126,796)
Gross Profit		7,494,458	186,331
Finance expense	5	(6,674,731)	(204,074)
Administrative expense	6	(335,867)	(270,846)
Profit/(Loss) before tax		483,860	(288,589)
Income tax credit	8	656,597	151,506
Profit/(Loss) for the year		1,140,457	(137,083)

There were no discontinued or discontinuing operations during the year.

Statement of comprehensive income

for the year ended 31 December 2011

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

Statement of financial position

as at 31 December 2011

	<i>Notes</i>	2011 £	2010 £
Assets			
Non-current assets			
Property, plant and equipment	10	<u>191,571,285</u>	<u>121,921,093</u>
Current assets			
Trade and other receivables		54,167	5,094,177
Current tax		<u>11,695,666</u>	-
		<u>11,749,833</u>	<u>5,094,177</u>
Total assets		<u>203,321,118</u>	<u>127,015,270</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	11	2,067,825	63,575
Current tax		-	6,344,605
Borrowings	12	127,088,069	82,352,552
Deferred revenue		<u>280,255</u>	6,899
		<u>129,436,149</u>	<u>88,767,631</u>
Non-current liabilities			
Borrowings	12	60,076,087	38,230,237
Deferred tax	13	<u>12,706,648</u>	55,625
		<u>72,782,735</u>	<u>38,285,862</u>
Total liabilities		<u>202,218,884</u>	<u>127,053,493</u>
Equity			
Share capital	14	2	2
Retained Earnings		<u>1,102,232</u>	(38,225)
Total equity		<u>1,102,234</u>	<u>(38,223)</u>
Total equity and liabilities		<u>203,321,118</u>	<u>127,015,270</u>

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



S F Purves
Director

Company registration number: 1139640

Statement of cash flows

for the year ended 31 December 2011

	Notes	2011 £	2010 £
Cash flow generated by/(utilised in) operating activities	15	13,895,190	(4,042,588)
Taxation paid		<u>(6,344,605)</u>	<u>-</u>
Net cash generated by/(utilised in) operating activities		<u>7,550,585</u>	<u>(4,042,588)</u>
Investing activities			
Acquisition of property, plant and equipment		<u>(74,131,951)</u>	<u>(33,096,675)</u>
Net cash utilised in investing activities		<u>(74,131,951)</u>	<u>(33,096,675)</u>
Financing activities			
Loans raised		80,839,540	120,582,789
Loans repaid		<u>(14,258,174)</u>	<u>(83,443,526)</u>
Net cash generated by financing activities		<u>66,581,366</u>	<u>37,139,263</u>
Net decrease in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of the year		<u>-</u>	<u>-</u>

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

	Share capital £	Retained earnings £	Total shareholders' equity £
Balance at 1 January 2010	2	98,858	98,860
Loss for the year	-	(137,083)	(137,083)
At 31 December 2010	<u>2</u>	<u>(38,225)</u>	<u>(38,223)</u>
Profit for the year	-	1,140,457	1,140,457
Balance at 31 December 2011	<u>2</u>	<u>1,102,232</u>	<u>1,102,234</u>

Notes to the Annual Financial Statements

for the year ended 31 December 2011

1 General Information

Eversholt Rail (380) Limited is a company incorporated and domiciled in England and Wales.

The registered office of the Company is 210 Pentonville Road, London N1 9JY.

The principal activities of the company are set out on page 2.

2 Basis of Preparation

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

2.1 Compliance with International Financial Reporting Standards

The financial statements of Eversholt Rail (380) Limited have been prepared on the historical cost basis. These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the year ended 31 December 2011 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group. Accordingly, the financial statements of the Company for the year ended 31 December 2011 are prepared in accordance with IFRSs as issued by the IASB and endorsed by the EU.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

2.2 Standards and Interpretations issued by the IASB

At 31 December 2011 a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the financial statements of Eversholt Rail (380) Ltd. These include the following Standards which are relevant to the Company's financial statements.

2.2.1 IFRS 9 Financial Instruments

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

2.2.2 IFRS 13 Fair Value Measurement

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

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and is not expected to have a significant impact on the Company's financial statements.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

2 Basis of Preparation (continued)

2.2 Standards and Interpretations issued by the IASB

2.2.3 IAS 1 Presentation of Financial Statements

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

No other standards or interpretations available for early adoption are expected to have a significant effect on the results or net assets of Eversholt Rail (380) Ltd when adopted.

2.3 Going concern

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

3 Summary of significant accounting policies

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

3.1 Interest income and expense

Interest income and expense for all interest bearing financial instruments is recognised in 'Finance income' and 'Finance expense' in the income statement using the effective interest rate method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability on initial recognition. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

3.1.1 Borrowing costs

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

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

3.2 Fees and commission income

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

3 Summary of significant accounting policies

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.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period.

3.4 Property, plant and equipment

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

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

- i) Progress payments paid to third parties are capitalised.
- ii) Interest costs are capitalised to the extent that they are incurred in relation to borrowings, which are attributable to the construction of rolling stock and other railway assets and accrue in respect of the period of construction.
- iii) Assets in the course of construction are not depreciated until they are available for use.

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

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

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

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

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

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

3. Summary of significant accounting policies (continued)

3.5 Financial instruments

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

3.5.1 Financial assets

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

3.5.1.1 Loans and receivables

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

3.5.1.2 Cash and cash equivalents

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

3.5.2 Financial liabilities

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

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

3.5.3 Impairment of financial assets

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

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

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

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

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

3. Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

3.5.4 Offsetting financial assets and financial liabilities

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

3.5.5 Determination of fair value

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

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

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

3.6 Statement of cash flows

The statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in intercompany transactions are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

3.7 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.

3.8 Use of assumptions and estimates

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

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

The critical judgements and estimates that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements relate to depreciation.

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

3. Summary of significant accounting policies (continued)**3.9 Maintenance income and costs**

The non-capital element of rentals ('maintenance income') is deferred to the extent that it relates to future maintenance costs.

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. These costs are based on the expected maintenance costs over the lease period.

3.10 Leases

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

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

4. Cost of sales

	2011 £	2010 £
Depreciation	<u>(4,481,759)</u>	<u>(126,796)</u>

5. Finance expense

	2011 £	2010 £
Interest payable to Eversholt Funding plc	(4,955,199)	(151,185)
Finance charges payable to Eversholt Funding plc	(1,215,029)	(3)
Interest payable to Eversholt Rail (UK) Limited	(503,889)	-
Other costs	(614)	(52,886)
	<u>(6,674,731)</u>	<u>(204,074)</u>

Borrowing costs of £1,861,309 have been capitalised during the year (31 December 2010: £4,023,088). The capitalised rate used is the rate of interest attaching to the Group's borrowings attributable to the construction of rolling stock.

6. Administrative expense

Administrative expenses include the following:

	2011 £	2010 £
Management Fees	(325,000)	(270,833)
Audit fee in respect of 2011 audit	(8,214)	-

The Company has no employees and hence no staff costs (2010: nil). During the prior year, Auditor's remuneration was paid by another Group entity.

7. Directors' emoluments

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

8. Income tax credit

	2011 £	2010 £
Current tax		
UK corporation tax on current year profit	11,695,666	(6,344,605)
Adjustment in respect of prior year	<u>1,611,954</u>	-
	<u>13,307,620</u>	<u>(6,344,605)</u>
Deferred tax		
Origination and reversal of temporary differences		
- Current year	(11,082,444)	6,496,111
- Prior year	<u>(1,568,579)</u>	-
	<u>(12,651,023)</u>	<u>6,496,111</u>
Total income tax credit	<u>656,597</u>	<u>151,506</u>

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

	2011 £	2010 £
Taxation at corporation tax rate of 26.5% (31 December 2010: 28%)	(128,223)	80,805
Adjustment in respect of prior year	43,375	-
Change in tax rate	<u>741,445</u>	<u>70,701</u>
Income tax credit	<u>656,597</u>	<u>151,506</u>

9. Dividends

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

10. Property, plant and equipment

	Assets in the course of construction £	Rolling stock and other railway assets £	Total £
Cost			
Balance at 1 January 2010	88,951,214	-	88,951,214
Additions	33,096,675	-	33,096,675
Transfers	(49,153,400)	49,153,400	-
Balance at 31 December 2010	<u>72,894,489</u>	<u>49,153,400</u>	<u>122,047,889</u>
Additions	74,131,951	-	74,131,951
Transfers	(147,026,440)	147,026,440	-
Balance at 31 December 2011	<u>-</u>	<u>196,179,840</u>	<u>196,179,840</u>
Depreciation			
Balance at 1 January 2010	-	-	-
Charge for the year	-	126,796	126,796
Balance at 31 December 2010	<u>-</u>	<u>126,796</u>	<u>126,796</u>
Charge for the year	-	4,481,759	4,481,759
Balance at 31 December 2011	<u>-</u>	<u>4,608,555</u>	<u>4,608,555</u>

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

10. Property, plant and equipment (continued)

	Assets in the course of construction £	Rolling stock and other railway assets £	Total £
Carrying value at 31 December 2011	-	191,571,285	191,571,285
Carrying value at 31 December 2010	72,894,489	49,026,604	121,921,093

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

11. Trade and other payables

	2011 £	2010 £
Trade payables	294,230	400
Accruals	8,214	63,175
Rentals received in advance	1,765,381	-
	2,067,825	63,575

12. Borrowings

	No later than one year	Later than one year	Total
31 December 2011			
Eversholt Rail (UK) Limited	5,951,755	-	5,951,755
Eversholt Funding plc	121,136,314	60,076,087	181,212,401
	127,088,069	60,076,087	187,164,156
31 December 2010			
Eversholt Rail (UK) Limited	20,209,928	-	20,209,928
Eversholt Funding plc	62,142,624	38,230,237	100,372,861
	82,352,552	38,230,237	120,582,789

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

The loan from Eversholt Funding plc is repayable in line with the repayment terms on Eversholt Funding plc's own external debt. According to these terms, £121,136,314 is repayable on demand (31 December 2010: £62,142,624). £16,384,387 is repayable in 2020, (31 December 2010: £16,384,387). £21,845,850 is repayable in 2025. £21,845,850 (31 December 2010 £21,845,850) and is repayable between 2021 and 2035.

Interest is payable at rates varying between 5.8% and 6.7% per annum (31 December 2010: 5.8% to 6.1%) per annum.

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

13. Deferred tax

	2011 £	2010 £
Leasing transactions temporary differences:		
Balance at beginning of the year	55,625	6,551,736
Income statement charge/(credit)	<u>12,651,023</u>	<u>(6,496,111)</u>
Balance at end of the year	<u>12,706,648</u>	<u>55,625</u>

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

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

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

14. Share capital

	2011 £	2010 £
Authorised, allotted, called up and fully paid		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>

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

15. Notes to the cash flow statement

	2011 £	2010 £
Profit/(Loss) before tax	483,860	(288,589)
Adjustments for:		
- Depreciation charge	4,481,759	126,796
- Group relief received	<u>1,611,954</u>	<u>1,136,819</u>
Operating cash flows before changes in working capital	6,577,573	975,026
- (Increase)/decrease in finance lease receivable	-	6,415
- Increase/(decrease) in deferred revenue	273,356	-
- (Increase)/decrease in trade and other receivables	5,040,010	(137,875)
- Increase/(decrease) in trade and other payables	<u>2,004,251</u>	<u>(4,886,154)</u>
Net cash generated by/(utilised in) operating activities	<u>13,895,190</u>	<u>(4,042,588)</u>

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

16. Capital commitments

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

	2011 £	2010 £
Authorised and contracted	-	<u>75,262,000</u>

17. Risk management

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

Residual value risk

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

Capital risk management

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

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

Credit risk management

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

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

No lease receivables are past their due date.

Liquidity risk management

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

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

17. Risk management (continued)**Liquidity risk management (continued)**

Undiscounted cash flows from the company's assets and liabilities are analysed below by their contractual due date:

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

	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						
- Trade and other receivables	5,094,177	5,094,177	-	5,094,177	-	-
Financial liabilities						
Non-derivative instruments – amortised cost						
- Trade and other payables	(63,575)	(63,575)	-	(63,575)	-	-
- Current taxation	(6,344,605)	(6,344,605)	-	(6,344,605)	-	-
- Borrowings	(120,582,789)	(150,997,265)	(82,352,552)	(2,344,551)	(9,384,628)	(56,915,534)
	<u>(126,990,969)</u>	<u>(157,405,445)</u>	<u>(82,352,552)</u>	<u>(8,752,731)</u>	<u>(9,384,628)</u>	<u>(56,915,534)</u>
Total financial instruments	<u>(121,896,792)</u>	<u>(152,311,268)</u>	<u>(82,352,552)</u>	<u>(3,658,554)</u>	<u>(9,384,628)</u>	<u>(56,915,534)</u>

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

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.

Market risk management

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

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

18. Operating lease arrangement

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

	2011 £	2010 £
Within one year	17,653,805	4,439,645
2-5 years	70,615,220	18,440,110
Over 5 years	176,538,049	50,710,303
	<u>264,807,074</u>	<u>73,590,058</u>
 Aggregate operating lease rentals	 <u>11,859,645</u>	 <u>312,975</u>

19. Related-party transactions**19.1 Identity of related parties**

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

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

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

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

Regus House
Harcourt Centre
Harcourt Road
Dublin 2
Ireland

19.2 Transactions with related parties

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

Loan accounts more fully described in Note 12. Interest incurred on these loans is disclosed in Note 5.

£325,000 of management fees payable to Eversholt Rail (UK) Ltd were incurred (31 December 2010: £270,833).

Notes to the Annual Financial Statements (continued)

for the year ended 31 December 2011

19. Related-party transactions (continued)

19.2 Transactions with related parties (continued)

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

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

20. Contingent liabilities

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

21. Subsequent events

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

