Eurostar International Limited

Directors' report and consolidated financial statements

31 December 2011

Registered number: 2462001

Directors

The following are Directors of the Company as at 29 March 2012

Executive Directors
J Cheesewright (Chief Financial Officer)
N Mercer (Commercial Director)
N Petrovic (Chief Executive Officer)

Non - Executive Directors
JM Bayley
RH Brown (Chairman)
B Dalibard
M Descheemaecker
TJG Dilissen
J-C Guez
C Hollingsworth
M Russell
D Thillaud

Company Secretary
G Williams

Registered Office
Times House
Bravingtons Walk
London
N1 9AW

Directors' report

The Directors present their report and financial statements of Eurostar International Limited (the 'Company' or 'EIL') and its subsidiaries (the Group' or 'Eurostar) for the year ended 31 December 2011, prepared under International Financial Reporting Standards The comparative figures represent the 4 month period from 31 August 2010 to 31 December 2010

The Company was involved in a significant corporate restructure on 31 August 2010 (the 2010 Restructure') and separate statutory accounts were prepared for the period pre-restructure, from 1 January 2010 to 30 August 2010, on a UK GAAP basis EIL moved to IFRS from 31 August 2010 to be consistent with Société Nationale des Chemins de fer Français ('SNCF'), its major shareholder From 1 January 2011 onwards, the Company reverted back to an annual financial reporting period

Business Review and Principal Activities

The principal activity of the Group is the operation of high speed Eurostar passenger train services between Britain and France and Belgium through the Channel Tunnel There have not been any significant changes in the operational nature of the Group's principal activities in the period under review

Operating performance for the year has been strong The average train punctuality was 92 8% (2010 86 6%) and this level of punctuality continues to be significantly better than the airline competition

A record total turnover was achieved for the year to 31 December 2011 of £824 7m (4 months to 31 December 2010 £252 9m) and Eurostar carried 9 7m passengers during this year (4 months to 31 December 2010 3 1m) In total, Eurostar carried 9 5m passengers in 2010

Operating Profit before exceptional items and depreciation and amortisation for the year was £87 0m (4 months to 31 December 2010 £13 5m) which was ahead of the Group's target Net profit for the year was £20 8m (4 months to 31 December 2010 (restated) £189 4m) The consolidated statement of comprehensive income for the period is set out on page 13

Operating cash performance was significantly ahead of the Group's target and the period end net cash balance after borrowings was £46 5m (2010 £164 6m) after payments in the year for new rolling stock which is scheduled to be delivered from 2014 The overall net assets position of the Group at 31 December 2011 was £739 3m (2010 (restated) £748 2m)

Eurostar commenced the sale of 'connecting' train services into Holland in October 2011 Travellers are increasingly choosing the train for longer distance travel within Europe due to the 'City Centre to City Centre' nature of the Eurostar service and for environmental reasons also

Eurostar is an official partner for the 2012 London Olympic Games and this is expected to showcase our service to a large number of passengers who may not have travelled on Eurostar before This should build further loyalty for the Eurostar product and provide potential growth for the revenue streams of the business in the coming years

KPIs

The Directors continue to monitor Eurostar's performance using a range of key performance indicators ('KPIs') A selection of these key measures are shown below

	Year ended 31 December 2011	4 months to 31 December 2010
Total turnover (£m)	**824.7**	252 9
Adjusted EBITDA (£m)	**94.7**	13 5
Net cash after borrowings (£m)	**46.5**	164 6
Travelled passenger volumes (m)	**9.7**	9 5
Punctuality (arrivals within 15 minutes of timetable)	**92.8%**	86 6%

Directors' report *(continued)*

Dividends

On 29 March 2012, the Directors proposed a final dividend amounting to £6 2m (2010 £nil)

Environment

Eurostar has a well established environment and sustainability programme known as 'Tread Lightly' Progress since Tread Lightly was launched in 2007 has been excellent Recycling rates have improved significantly and in 2011 negligible waste was sent to landfill, a year ahead of our target, and we reached 75% recycling The majority of disposable items used on board are made from biodegradable materials or are fully recyclable and our on-board food is sourced from the country of departure, where possible All tea, coffee and sugar used on-board is certified as organic, Fair-trade or Rainforest Alliance

During 2011, Eurostar updated its Tread Lightly Programme, with a particular focus on reducing the carbon footprint of our wider business operations and we launched the 'Eurostar Ashden Award for Sustainable Travel' which will recognise and reward organisations in the UK, France and Belgium who are demonstrating innovation and leadership in sustainable travel

New Rolling Stock

On 7 October 2010, EIL announced its intention to award a contract to Siemens Plc for the design, supply and maintenance of new high speed e320 trainsets, following a competitive tender exercise This will enable Eurostar to expand its service offering beyond Paris and Brussels and the new trains will be able to carry around 900 passengers at speeds of up to 320km/hour

Alstom Transport was unsuccessful in its bid for this contract and issued a claim against EIL on 19 October 2010 in the High Court in London seeking an order to set aside the award of the contract to Siemens and/or damages On 29 October 2010, the Court dismissed Alstom's injunction application to have the award of the contract to Siemens set aside

EIL signed the contract with Siemens on 3 December 2010 and delivery of the new rolling stock is expected from 2014 onwards

Alstom failed in a further attempt in the High Court to have the Siemens contract set aside for 'ineffectiveness' on 13 July 2011

The High Court found on 20 January 2012 that EIL was not subject to EU procurement rules This removes the primary statutory basis of Alstom's claim for damages This decision is now subject to an appeal (for which permission has already been given) and possible further challenges by Alstom Alstom's secondary argument is that there was nevertheless an implied contract between Alstom and EIL that mirrored the EU procurement rules On that point there is an unrelated, but relevant, judgment issued recently which is that if it is deemed (as in EIL's case) that the company is not subject to such rules, there can be no general implied obligation to follow such rules No liability has been recorded in these accounts in relation to this matter as the Directors consider the likelihood of loss to be remote

Train Refurbishment and Overhaul of Existing Fleet

EIL has started two projects involving work on the existing inter-capital train sets a mid-life overhaul and an interior refurbishment Both projects are currently progressing to plan and will take place over several years, with the first completed sets due from 2013 onwards

Directors' report *(continued)*

Financial Instruments

The Group's and Company's exposure to and treatment of financial instruments is disclosed in note 22 of the accounts

During the year, bank loans of £73 9m were drawn in relation to the funding of the new rolling stock (see note 18 for further details) The interest rate risk on this facility is hedged

The Group has limited exposure to foreign exchange risk

Principal risks and uncertainties

The Directors consider that the following areas represent the principal risks and uncertainties for the Eurostar business

- Economic Recessionary pressures on disposable income for leisure travellers, and travel restrictions for business travellers, could both impact on Eurostar's ability to increase revenue
- Operational There are risks of operational disruption caused by external factors whether as a result of infrastructure difficulties on the line, catastrophic events or bad weather, all of which would impact on the Company performance The Board consider that satisfactory mitigating controls within Eurostar's responsibility are in place insofar as possible and safety-related matters are considered regularly at Board and Safety Management Group meetings
- Regulatory The Company operates in several jurisdictions and as such, is susceptible to changes in laws or regulations which may impact on the Eurostar operation This is considered regularly at Board level
- Commercial From 1 January 2010, EU open-access legislation came into force which enables new train operators to apply for train pathways and tunnel access on the Company's core routes This potential competition to the Company presents significant risk to the financial performance of the business in the coming years
- Financial The business is not unduly exposed to exchange rate fluctuations and has taken steps to mitigate potential risks from both exchange rate and interest rate volatility arising from the financing arrangements for new rolling stock

Employees

Eurostar staff are very important to the business The Company is a non-discriminatory employer operating an Equal Opportunities Policy, committed to the employment and promotion of all staff on the basis of merit, without regard to age, race, colour, sex, marital status or disability Where appropriate, training is adjusted to cater for an individual's disability and the disabled share the same conditions of service as other staff in relation to career development and promotion

The Company is committed to effective employee communication which is maintained through an intranet site and regular briefing sessions Formal communication takes place through the Company Council or directly by letter to employees

Eurostar uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors that affect the Company's performance and prospects

Directors' report *(continued)*

Employees *(continued)*

In considering applications for employment from disabled people in the UK, Eurostar seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the job for which he or she has applied Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Company and are of interest and concern to them as employees The Company also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them

Payment of creditors

It is the Company's policy to agree appropriate terms of payment with suppliers for each transaction or series of transactions and to abide by those terms based on the timely submission of satisfactory invoices The Company normally settles trade creditors no later than the last business day of the month following the month in which the invoice is received For the Company, trade creditors outstanding at the year end represented 12 5 days' purchases (2010 13 0 days)

Basis of Preparation for these accounts

The Directors consider that under the terms of the Shareholder Agreement dated 31 August 2010, SNCF has the power to control EIL Accordingly, these accounts have been prepared on the basis that EIL is a subsidiary of SNCF and that EIL was reverse-acquired' by SNCF on 31 August 2010

Reverse acquisition accounting requires that these financial statements be prepared to portray a continuation of the SNCF Eurostar business at the former SNCF amounts, including pre-combination history, with the EIL and Societé Nationale des Chemins de fer Belges ('SNCB') Eurostar businesses brought in at the date of the combination at fair values (as described in the Business Combination accounting policy in note 3 1)

EIL's statutory financial statements for the eight month period ended 30 August 2010 were prepared under UK GAAP and presented the financial results of the former UK Eurostar Business The subsequent EIL statutory financial statements for the four month period ended 31 December 2010 represented a required revision to the basis of preparation compared with the preceding periods' financial statements, and were prepared under Adopted IFRS

However, the EIL financial statements for the 4 month period ended 31 December 2010 were not the first IFRS financial statements as they did not fulfil the requirements in respect of comparative information This was as a result of the 'reverse acquisition' of EIL, where the acquiring entity for the business was technically defined as the SNCF Eurostar business The financial results for the SNCF Eurostar business for the 8 month period to 30 August 2010 were not separately identified by SNCF in their accounting systems and as such, they were unable to provide comparative information for EIL For this reason, the Directors of EIL were unable to prepare prior period information (pre the 2010 Restructure) as a comparative against the four month accounting period to 31 December 2010 (post the 2010 Restructure)

Therefore, both the Group and the Company are presenting their first formal IFRS financial statements as defined by IFRS 1, in accordance with Adopted IFRS

Directors' report *(continued)*

Directors and their interests

The Directors who served during the year were as follows

Executive Directors	
J Cheesewright	Chief Financial Officer
N Mercer	Commercial Director
N Petrovic	Chief Executive Officer
Non-Executive Directors	
JM Bayley	
RH Brown	
B Dalibard	Resigned on 3 December 2010, re-appointed on 26 January 2011
M Descheemaecker	
TJG Dilissen	Appointed on 1 January 2011
J-C Guez	
C Hollingsworth	
M Russell	
D Thillaud	Resigned on 3 December 2010, re-appointed on 26 January 2011

No Director had, at any time during the year, any interest in the shares of any Group company

Directors' statement as to disclosure of information to the auditors

The Directors who are members of the Board at the time of approving the Directors' report and business review are listed on page 1 Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that

- To the best of each Director's knowledge and belief there is no information relevant to the preparation of the auditors' report of which the Company s auditors are unaware, and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to make him or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006

Directors' and Officers' liability insurance

The Company has purchased insurance against Directors' and Officers' liability as permitted by the Companies Act 2006 for the benefit of the Directors and Officers of the Company and its subsidiaries

Shares and shareholders

The number of £1 ordinary shares issued and fully paid as at 31 December 2011 was 5,000 (2010 5,000) The number of £1 preference shares issued and fully paid as at 31 December 2011 was 1 (2010 1) The shareholdings are as follows

SNCF Voyages Developpement SAS	2,750 ordinary shares
London & Continental Railways Limited ('LCR')	2,000 ordinary shares, 1 preference share
SNCB	250 ordinary shares

Directors' report *(continued)*

Statement of Directors' responsibilities in relation to the financial statements

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each of the group and parent company 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,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 group and to prevent and detect fraud and other irregularities

Going concern

The Company's business activities and performance are set out on pages 2-5 The financial position of the Company can be seen in the financial statements on pages 13-18, and further information is provided in notes 1-28 to the financial statements

In accordance with the guidance issued in October 2009 by the Financial Reporting Council, "Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009", a cash flow analysis has been completed in preparing the detailed 2012 Budget cash projections and 5 year Business Plan (2012-2016) which have been reviewed by the Board Following these reviews, the Directors confirm that, after having made appropriate enquiries, they have reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future Accordingly the Directors continue to adopt the going concern basis in the preparation of the Accounts This approach was endorsed by the Audit Committee at its meeting held on 28 March 2012

Political and Charitable donations

The Company has made charitable donations totalling £32,000 (2010 £nil) during the year No political donations were made in the current or prior period

Approved by the Board and signed on its behalf by

RH Brown
Chairman

29 March 2012

Corporate Governance

The Company is committed to high standards of corporate governance and this is referred to in the Shareholders Agreement approved by the Board on 31 August 2010 (the 'Shareholders Agreement') As far as is appropriate to the Company, the provisions of the UK Corporate Governance Code (2010) have been adopted, as set out below

The Board

The Board provides leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance The Board sets the Company's values and standards and ensures that its obligations are understood and met

In accordance with best practice, the Board conducts a collective review of its continuing effectiveness on an annual basis The Chairman conducts an annual review of the Non-executive Directors and the Chief Executive Officer The Chairman's own performance is subject to the review of the Board and shareholders

Safety matters are considered by the Board at each Board meeting and the Head of Safety is invited to attend the Board meeting at least twice a year Safety matters are a key priority for the Board

All Directors are involved in, and responsible for, the development of the Company's strategy The Non-executive Directors review the performance of the Company with the Executive Directors on a regular basis The Board delegates certain of its functions to committees consisting of Non-executive Directors, as detailed within this report The Board meets at least four times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the Company Broadly, the Board is involved in the approval of major strategic and financial decisions, including investment decisions above certain financial limits, approval of business plans and annual budgets, and the entering into of significant operating contracts

The Board is led by the Chairman and the executive management of the Company is led by the Chief Executive Officer The Chairman, in consultation with the Chief Executive Officer, is responsible for setting the Board agenda and ensuring that it works effectively Working with the Secretary, he ensures that Board members receive accurate, timely and clear information Of the twelve members serving at the year end, three were Executive Directors, five were shareholder-nominated Directors and four were Independent Non-executive Directors (including the Chairman) All nine Non-executive Directors are drawn from a diverse range of business and other backgrounds, bringing a broad spectrum of views and experiences to Board deliberations This diversity of background and experience is identified by the Board members as one of the strengths of the Board There was no Senior Independent Director during the year

The Non-executive Directors scrutinise the performance of the management in order to be satisfied as to the integrity and strength of financial information, controls and risk management They have a prime role in appointing, removing and succession planning of senior management and, through the Remuneration Committee, they are responsible for determining appropriate levels of remuneration for the Executive Directors

All Directors receive regular information about the Company so that they can play as full a part as possible in Board meetings unless an emergency meeting is called on short notice Papers for Board and Committee meetings are distributed a week prior to the relevant meeting All Board members have access to the Secretary for any further information they require If any of the Non-executive Directors has any concerns with the running of the Company, they would first discuss these concerns with one of the Executive Directors, the Secretary or the Chairman If their concerns cannot be resolved in this way, then they are recorded in the Board minutes

Independent professional advice and training is available to Directors in appropriate circumstances, at the Company's expense New Directors are appointed to the Board on the recommendation of the Nominations Committee

Directors are entitled to be indemnified out of the assets of EIL against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions pursuant to the provisions of the Companies Act 2006 Such indemnity provisions have been in place during the financial year but have not been utilised by the Directors

Corporate Governance *(continued)*

The Board *(continued)*

The appointment and removal of the Secretary is a matter for the Board as a whole

Rules about the appointment and replacement of Directors are set out in the Shareholder Agreement The Directors' powers are conferred on them by UK legislation and by the Company's Articles of Association

Board meetings

The numbers of Board and Committee meetings attended by Directors during the year was as follows

	Board	Audit Committee	Remuneration Committee	Nomination Committee
M Bayley	6	n/a	4	-
R Brown	7	3	4	-
J Cheesewright	6	n/a	n/a	n/a
B Dalibard	6	n/a	4	-
M Descheemaecker	3	n/a	2	-
T Dilissen	5	2	3	-
J-C Guez	7	3	4	n/a
C Hollingsworth	7	3	4	n/a
N Mercer	7	n/a	n/a	n/a
N Petrovic	6	n/a	n/a	n/a
M Russell	6	3	n/a	n/a
D Thillaud	5	2	n/a	n/a
Total meetings in year	**7**	**3**	**4**	**-**

Board Committees

The Board has three specific Committees Audit, Nominations and Remuneration The Audit and Remuneration Committees meet regularly under terms of reference set by the Shareholders Agreement The Nomination Committee meets as required From time to time, there are further sub-Committees of the Board set up, to review a particular project or investment Every Committee has authority to take external advice as required

Audit Committee
The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action

The Audit Committee comprises Non-Executive Directors of the Company At least one member of the Committee has recent and relevant financial experience It has agreed formal terms of reference which have been provided to the shareholders It meets not less than twice annually The Committee monitors the integrity of the financial statements of the Company, reviews the internal financial controls and the internal control and risk management systems It monitors and reviews the effectiveness of the internal audit function and provides a forum for reporting by the Company's external and internal auditors The Committee meets with each of the external and internal auditors at least once a year without the Executive Directors present The Audit Committee was chaired by M Russell during the year

KPMG Audit Plc and Mazars LLP were appointed joint auditors on 31 August 2010

Corporate Governance *(continued)*

Board Committees *(continued)*

Nominations Committee
The Nominations Committee is chaired by R Brown There were no meetings held in 2011

Remuneration Committee
The Remuneration Committee includes some shareholder representatives as Non-Executive Directors of the Company The Company does not, therefore, fully comply with provision D 2 1 of the UK Corporate Governance Act (2010) which requires only independent Non-Executives to form the Committee The Committee was chaired during the year by J-C Guez It has delegated responsibility for recommending the remuneration of all Executive Directors including pension rights and any compensation payments It recommends and monitors the level and structure of remuneration for senior management

Internal control framework and risk management

The Directors are responsible for maintaining and reviewing the effectiveness of the Company's system of internal control including financial controls This is designed to provide reasonable assurance regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information used within the business These controls are designed to manage, rather than eliminate, the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss

The Company has in place internal control systems in relation to the Company's financial reporting process and for the preparation of consolidated accounts

During this financial year, there has been a review of the risk register for the Eurostar business at the Eurostar Management Group, Board and Audit Committee The controls in place to mitigate risks are tested by the Internal Auditors, Grant Thornton, to ensure their robustness This provides assurance over key business processes and commercial and financial risks facing the Company

A clear organisational structure exists, detailing lines of financial authority and control responsibilities The performance management system establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements

The business agenda is determined by the strategy, setting out the agreed targets for financial performance and service offering Each year the Board approves the strategy, which is supported by a detailed business plan for the five years ahead Progress against the business plan is regularly monitored

A comprehensive management accounting system is in place providing management with financial and operational performance measurement indicators Detailed management accounts are prepared monthly to cover each major area of the business Variances from budget and prior year are analysed, explained and acted on in a timely manner As well as regular Board discussions, fortnightly meetings are held by the Eurostar Management Group to review performance of specific projects as required

Effective corporate governance remains key to the business The Company continues to review its internal control framework to ensure it maintains a strong and effective internal control environment

Corporate Governance *(continued)*

Directors' conflicts

With effect from 1 October 2008, the new Companies Act 2006 provisions regarding Directors' conflicts of interest came into force These place Directors under an obligation to avoid situations arising on or after 1 October 2008 in which they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company (Section 175(1)) This duty is not infringed if the matter has been authorised in advance by the Directors pursuant to provisions of the Articles of Association permitting them to do so This duty does not apply to a conflict of interest arising in relation to a transaction or arrangement with the relevant person directly (such as a contract of employment)

Directors' Remuneration

The remuneration of the Executive Directors is designed to retain and attract people of the right calibre, to align their interests with those of the Company, and to incentivise them to perform at the highest level The provisions of Schedule D to the UK Corporate Governance Act (2010) have been considered and applied in developing the remuneration of the Executive Directors The levels of remuneration for the Non-Executive Directors reflect the time commitment and responsibilities of the role As the Company is not listed, share options are not available to the Directors

N Mercer has been released by the Board to serve as a non-executive Director for Rail Europe Group Limited and the King's Cross Business Partnership Limited Mr Mercer receives no remuneration for these posts N Mercer, N Petrovic, and J Cheesewright are members of the Company defined benefit pension scheme

	Year to 31 December 2011	4 months to 31 December 2010
	£000	£000
Total Director Remuneration	1,856 0	672 6
Total Pension Contributions	55 0	16 9
Total Director Emoluments	**1,911.0**	**689.5**
Highest paid Director in Period	*627 0*	*252 6*
Accrued annual pension benefit of highest paid Director	*17 2*	*15 2*

No Director held, during the year, any beneficial interest in the shares of the Company or any of its subsidiaries

Independent Auditors' Report to the Members of Eurostar International Limited

We have audited the financial statements of Eurostar International Limited for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in Shareholders' funds, the consolidated and parent company cash flow statements and related notes 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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 7, 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 website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion

- the group financial statements give a true and fair view of the state of the group and the parent company's affairs as at 31 December 2011, and of the group's profit for the year ended 31 December 2011,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

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

15 Canada Square
London E14 5GL
29 March 2012

Robert Neate (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Statutory Auditor, Chartered Accountants

St Katharine's Way
London E1W 1DD
29 March 2012

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

	Note	**Year ended 31 December 2011**	4 months ended 31 December 2010 *(restated)*
		£m	£m
Revenue	*3 6*	**824.7**	252 9
Infrastructure costs	*7*	**(369.8)**	(119 3)
Other direct costs		**(57.2)**	(17 8)
Other operating expenses		**(310 7)**	(105 9)
Operating profit before exceptional items, depreciation and amortisation		**87.0**	13 5
Exceptional items	*7*	**-**	(3 6)
Operating profit before depreciation and amortisation		**87 0**	9 9
Depreciation and amortisation		**(55 6)**	(15 2)
Impairment		**(6 4)**	-
Operating profit/(loss)	*7 8*	**25 0**	(5 3)
Release of negative goodwill	*5*	**-**	191 2
Financing income	*9*	**12 9**	8 3
Exceptional finance costs		**(5.7)**	-
Other finance costs		**(10.8)**	(4 0)
Finance costs	*9*	**(16 5)**	(4 0)
Profit before tax		**21 4**	190 2
Taxation	*10*	**(0 6)**	(0 8)
Net profit		**20 8**	189 4
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		**(53.2)**	-
Deferred tax movement on effective portion of changes in fair value of cash flow hedges		**13.3**	-
Deferred tax movement on pension asset		**(3.7)**	-
Total comprehensive (loss)/income		**(22 8)**	189 4

Consolidated Statements of Financial Position at 31 December 2011

	Note	**31 December 2011**	31 December 2010	31 August 2010*
			(restated)	*(restated)*
		£m	£m	£m
Non-current assets				
Property, plant and equipment	*11*	**646.2**	524 7	146 8
Intangible assets	*12*	**79 8**	80 4	1 2
Trade and other receivables	*16*	**40.4**	130 9	27 1
Deferred tax assets	*14*	**45.8**	32 5	-
		812.2	768 5	175 1
Current assets				
Inventories	*15*	**7.3**	6 5	-
Trade and other receivables	*16*	**150.3**	117 7	2 5
Cash and cash equivalents	*17*	**120.4**	164 6	-
		278 0	288 8	2 5
Total assets		**1,090.2**	1,057 3	177 6
Current liabilities				
Other interest-bearing loans and borrowings	*18*	**(9 6)**	(9 5)	(24 1)
Trade and other payables	*19*	**(181.3)**	(197 5)	(8 5)
		(190 9)	(207 0)	(32 6)
Non-current liabilities				
Other interest-bearing loans and borrowings	*18*	**(103 1)**	(54 9)	(15 8)
Deferred tax liabilities	*14*	**(3 7)**	-	-
Employee benefits	*20*	-	(47 2)	-
Derivative financial instruments	*22*	**(53.2)**	-	-
		(160 0)	(102 1)	(15 8)
Total liabilities		**(350.9)**	(309 1)	(48 4)
Net assets		**739.3**	748 2	129 2
Shareholders' funds				
Share capital	*21*	-	-	-
Share premium		**750 0**	750 0	619 6
Reverse acquisition		-	-	(1,191 4)
Capital redemption reserve		-	-	701 0
Retained earnings		**29 2**	(1 8)	-
Hedge reserve		**(39.9)**	-	-
		739 3	748 2	129 2

* Note that the above financial position at 31 August 2010 is prior to the 2010 Restructure

These financial statements were approved and authorised for issue by the Board of Directors on 29 March 2012 and were signed on its behalf by

N Petrovic
Chief Executive Officer

Company Statements of Financial Position at 31 December 2011

	Note	**31 December 2011**	31 December 2010 *(restated)*	31 August 2010* *(restated)*
		£m	£m	£m
Non-current assets				
Property, plant and equipment	*11*	**617 5**	494 1	146 8
Intangible assets	*12*	**79 8**	80 4	1 2
Trade and other receivables	*16*	**40.5**	130 9	27 1
Deferred tax assets	*14*	**45.8**	32 5	-
Investments	*13*	**13 2**	13 3	-
		796 8	751 2	175 1
Current assets				
Inventories	*15*	**7 3**	6 5	-
Trade and other receivables	*16*	**164 1**	137 6	2 5
Cash and cash equivalents	*17*	**120.2**	163 7	-
		291 6	307 8	2 5
Total assets		**1,088.4**	1,059 0	177 6
Current liabilities				
Other interest-bearing loans and borrowings	*18*	**(9.6)**	(9 5)	(24 1)
Trade and other payables	*19*	**(184 5)**	(199 8)	(8 5)
		(194.1)	(209 3)	(32 6)
Non-current liabilities				
Other interest-bearing loans and borrowings	*18*	**(103.1)**	(54 9)	(15 8)
Deferred tax liabilities	*14*	**(3 7)**	-	-
Employee benefits	*20*	-	(47 2)	-
Derivative financial instruments	*22*	**(53.2)**	-	-
		(160.0)	(102 1)	(15 8)
Total liabilities		**(354.1)**	(311 4)	(48 4)
Net assets		**734.3**	747 6	129 2
Shareholders' funds				
Share capital	*21*	-	-	
Share premium		**750.0**	750 0	619 6
Reverse acquisition		-	-	(1,191 4)
Capital redemption reserve		-	-	701 0
Retained earnings		**24.2**	(2 4)	-
Hedge reserve		**(39 9)**	-	-
		734 3	747 6	129 2

* Note that the above financial position at 31 August 2010 is prior to the 2010 Restructure

These financial statements were approved and authorised for issue by the Board of Directors on 29 March 2012 and were signed on its behalf by

N Petrovic
Chief Executive Officer

Statement of changes in Shareholders' funds

Group

	Share capital	Share premium	Reverse Acquisition	Capital Redemption	Retained Earnings *(restated*)*	Hedge reserve	Total Shareholders' funds *(restated*)*
	£m	£m	£m	£m	£m	£m	£m
Balance at 31 August 2010	-	619 6	(1,191 4)	701 0	-	-	129 2
Transactions with owners, recorded directly in equity							
Capital contribution from SNCB	-	113 5	-	-	-	-	113 5
Capital contribution – EGL shares	-	4 0	-	-	-	-	4 0
LCR Pension guarantee contributed	-	-	-	-	47 4	-	47 4
LCR Working capital contributions	-	-	-	-	10 4	-	10 4
New share capital issued	-	60 0	-	-	-	-	60 0
Capital reduction	-	(47 1)	1,191 4	(701 0)	(249 0)	-	194 3
Total contributions by and distributions to owners	-	130 4	1,191 4	(701 0)	(191 2)	-	429 6
Comprehensive income							
Net profit for the period	-	-	-	-	189 4	-	189 4
Total comprehensive income for the period	-	-	-	-	189 4	-	189 4
Balance at 31 December 2010	**-**	**750.0**	**-**	**-**	**(1.8)**	**-**	**748 2**

	Share capital	Share premium	Reverse Acquisition	Capital Redemption	Retained Earnings *(restated*)*	Hedge reserve	Total Shareholders' funds *(restated*)*
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2011	-	750 0	-	-	(1 8)	-	748 2
Transactions with owners, recorded directly in equity							
LCR pension contributions	-	-	-	-	9 8	-	9 8
Section 75 pension contributions	-	-	-	-	4 1	-	4 1
Total contributions by and distributions to owners	-	-	-	-	13 9	-	13 9
Comprehensive income							
Net profit for the period	-	-	-	-	20 8	-	20 8
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(53 2)	(53 2)
Deferred tax movement on effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	13 3	13 3
Deferred tax movement on pension asset	-	-	-	-	(3 7)	-	(3 7)
Total comprehensive income for the period	-	-	-	-	17 1	(39 9)	(22 8)
Balance at 31 December 2011	**-**	**750 0**	**-**	**-**	**29.2**	**(39 9)**	**739 3**

* See note 1 on page 20 for the effects of the restatement
Share capital of £5,000 is included in the above tables

Statement of changes in Shareholders' funds

Company

	Share capital £m	Share premium £m	Reverse Acquisition £m	Capital Redemption £m	Retained Earnings *(restated*)* £m	Hedge reserve £m	Total Shareholders' funds *(restated*)* £m
Balance at 31 August 2010	-	619 6	(1,191 4)	701 0	-	-	129 2
Transactions with owners, recorded directly in equity							
Capital contribution from SNCB	-	113 5	-	-	-	-	113 5
Capital contribution – EGL shares	-	4 0	-	-	-	-	4 0
LCR Pension guarantee contributed	-	-	-	-	47 4	-	47 4
LCR Working capital contributions	-	-	-	-	10 4	-	10 4
New share capital issued	-	60 0	-	-	-	-	60 0
Capital reduction	-	(47 1)	1,191 4	(701 0)	(249 0)	-	194 3
Total contributions by and distributions to owners	-	130 4	1,191 4	(701 0)	(191 2)	-	429 6
Comprehensive income							
Net profit for the period	-	-	-	-	188 8	-	188 8
Total comprehensive income for the period	-	-	-	-	188 8	-	188 8
Balance at 31 December 2010	**-**	**750.0**	**-**	**-**	**(2.4)**	**-**	**747.6**

	Share capital £m	Share premium £m	Reverse Acquisition £m	Capital Redemption £m	Retained Earnings *(restated*)* £m	Hedge reserve £m	Total Shareholders' funds *(restated*)* £m
Balance at 1 January 2011	-	750 0	-	-	(2 4)	-	747 6
Transactions with owners, recorded directly in equity							
LCR pension contributions	-	-	-	-	9 8	-	9 8
Section 75 pension contributions	-	-	-	-	4 1	-	4 1
Total contributions by and distributions to owners	-	-	-	-	13 9	-	13 9
Comprehensive income							
Net profit for the period	-	-	-	-	16 4	-	16 4
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(53 2)	(53 2)
Deferred tax movement on effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	13 3	13 3
Deferred tax liability on pension asset	-	-	-	-	(3 7)	-	(3 7)
Total comprehensive income for the period	-	-	-	-	12 7	(39 9)	(27 2)
Balance at 31 December 2011	**-**	**750 0**	**-**	**-**	**24.2**	**(39.9)**	**734.3**

* See note 1 on page 20 for the effects of the restatement
Share capital of £5,000 is included in the above tables

Cash Flow Statements
for the year ended 31 December 2011

	Note	**Group 2011**	Group Period ended 31 December 2010 *(restated)*	**Company 2011**	Company Period ended 31 December 2010 *(restated)*
		£m	£m	**£m**	£m
Cash flows from operating activities					
Profit for the year		**20.8**	189.4	**16.4**	188.8
Adjustments for					
Depreciation, amortisation and impairment	*11,12*	**62.0**	15.2	**60.1**	14.6
Foreign exchange losses/(gains)		**1.4**	(3.4)	**1.4**	(3.3)
Release of negative goodwill	*5*	**-**	(191.2)	**-**	(191.2)
Financial income		**(12.9)**	(4.9)	**(12.9)**	(4.9)
Financial expense		**15.1**	4.0	**15.1**	4.0
Taxation		**0.6**	0.8	**-**	0.8
		87.0	9.9	**80.1**	8.8
Decrease/(increase) in trade and other receivables		**15.0**	8.2	**30.9**	(11.0)
(Increase) in inventories		**(0.8)**	(0.6)	**(0.8)**	(1.2)
(Decrease)/increase in trade and other payables		**(16.0)**	23.7	**(24.9)**	47.9
		(1.8)	31.3	**5.2**	35.7
Interest paid		**(6.3)**	(0.5)	**(6.3)**	(0.5)
Interest received		**6.3**	0.4	**6.3**	0.5
Tax paid		**(0.6)**	-	**-**	-
Net cash from operating activities		**84.6**	41.1	**85.3**	44.5
Cash flows from investing activities					
Net cash acquired in business combinations		**-**	43.5	**-**	39.3
Acquisition of property, plant and equipment	*11*	**(179.0)**	(4.8)	**(179.0)**	(4.8)
Acquisition of intangibles	*12*	**(2.0)**	-	**(2.0)**	-
Net cash from investing activities		**(181.0)**	38.7	**(181.0)**	34.5
Cash flows from financing activities					
Proceeds from the issue of share capital		**-**	100.0	**-**	100.0
Proceeds from capital contributions		**10.4**	-	**10.4**	-
Proceeds from borrowings		**73.9**	-	**73.9**	-
Payment of financing fees		**(13.1)**	-	**(13.1)**	-
Purchase of swaption		**(5.7)**	-	**(5.7)**	-
Payment of finance lease liabilities		**(11.0)**	(16.5)	**(11.0)**	(16.5)
Net cash from financing activities		**54.5**	83.5	**54.5**	83.5
Net (decrease)/increase in cash and cash equivalents		**(41.9)**	163.3	**(41.2)**	162.5
Cash and cash equivalents at the beginning of the year		**164.6**	-	**163.7**	-
Effect of exchange rate fluctuations on cash held		**(2.3)**	1.3	**(2.3)**	1.2
Cash and cash equivalents at 31 December 2011	*17*	**120.4**	164.6	**120.2**	163.7

Notes

1 Basis of Preparation

Eurostar International Limited ('EIL') is a company incorporated and domiciled in the UK The Company's registered office is Times House, Bravingtons Walk, London N1 9AW The principal activity of the Company is the operation of high speed Eurostar passenger train services between Britain and France and Belgium through the Channel Tunnel

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'), over which it exercises exclusive control, directly or indirectly The parent company financial statements present information about the Company as a separate entity and not about its group

The financial statements of the companies included in the scope of consolidation are drawn up to 31 December 2011 The list of subsidiaries is presented in note 13

These financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS') The Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements

The financial statements are prepared on the historical cost basis

The Group's net profit for the year was £20 8m (4 months to 31 December 2010 *(restated)* loss of £1 8m) The Company s net profit for the year was £16 4m (4 months to 31 December 2010 *(restated)* loss of £2 4m)

Presenting the financial statements under Adopted IFRS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs) These are the Group's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied

Explanation of transition to IFRS

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information presented in these financial statements for the period ended 31 December 2010 and in the preparation of an opening IFRS statement of financial position at 31 August 2010 (the Group's date of transition)

In preparing its opening IFRS statement of financial position, the Group has not had to adjust amounts reported previously in financial statements as they were also prepared in accordance with IFRS However, the prior period financial statements were not the Group's first IFRS statements as explained in those accounts, due to the inability to present comparative data prior to the corporate restructure on 31 August 2010

Reverse acquisition accounting

On 31 August 2010 the company issued 2,750 shares to SNCF and FRL and 250 shares to SNCB in exchange for their respective trade and assets of their Eurostar businesses, which were previously business units within divisions of those entities The effect of this share issue was to give SNCF a 55% interest in the Company, SNCB a 5% interest in the Company and to reduce LCR's interest in the Company to 40% At the same time, SNCF, LCR and SNCB entered into a shareholders' agreement which, in the opinion of the Directors, gives SNCF control of EIL

Accounting for business combinations requires identification of the acquirer, which is the entity that gains control of the business as a result of the combination As SNCF controls EIL, this business combination was accounted for as an acquisition of the former UK and SNCB Eurostar businesses by SNCF, in both EIL's group and individual accounts (a reverse acquisition)

Notes *(continued)*

1 Basis of Preparation *(continued)*

Reverse acquisition accounting (continued)
Therefore, under reverse acquisition accounting the EIL financial statements from 31 August 2010 were prepared to portray a continuation of the SNCF Eurostar business at the former SNCF amounts, including pre-combination history, with the EIL and SNCB Eurostar businesses brought in at the date of the combination at fair values (as described in the Business Combination accounting policy below)

Functional and presentation currency
These consolidated financial statements are presented in pounds sterling, which is the Company's functional currency All financial information presented in pounds sterling has been rounded to the nearest hundred thousand, unless otherwise stated

Change from accounting policy previously presented – repairable spare parts
Under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', a voluntary change from what was previously presented has been made to reclassify repairable spare trainset parts Prior to 1 January 2011, these items were accounted for under IAS 2 'Inventories' The policy has now been amended to classify these as Property, Plant and Equipment under IAS 16 'Property, Plant and Equipment'

This change has been made to better reflect the nature and use of the assets in accordance with IAS 16, being major spares used only in connection with maintaining trainsets

The effect on the consolidated balance sheet and income statement for the periods ending 31 December 2011, 31 December 2010 and 31 August 2010 are set out below

Effect on the Balance sheet

	31 December 2011 £m	31 December 2010 £m	31 August 2010 £m
Increase in Property, Plant and Equipment			
Cost	**57.2**	44 1	17 9
Accumulated depreciation	**(4.7)**	(1 1)	-
Net book value	**52.5**	43 0	17 9
Decrease in stock cost	**(57.2)**	44 1	(17 9)
Net change to net assets	**(4.7)**	(1 1)	-
Net assets as previously presented	-	749 3	129 2
Net assets	**739.3**	748 2	129 2

Notes *(continued)*

1 Basis of Preparation *(continued)*

Change from accounting policy previously presented – repairable spare parts (continued)

	Year ended 31 December 2011	4 months ended 31 December 2010
	£m	£m
Effects on Income Statement		
Increase in depreciation	**(3.6)**	(1.1)
Net (decrease) in profit	**(3.6)**	(1.1)
Net profit as previously presented	**n/a**	190.5
Net profit	**20.8**	189.4

The initial repairable spare parts were acquired through the reverse acquisition that took place on 31 August 2010 (see note 5) and were fair valued at that time Therefore, there are no periods to adjust prior to the four month period ending 31 December 2010

2 Significant Accounting Estimates and Judgements

Judgements and estimates made by the Directors, in the application of the accounting policies, that have significant effect on the financial statements are as follows

Fair Value of Assets
The Group appointed an external valuer to assist in the assessment of the following assets as at 31 August 2010

Trainset valuation
The inter-capital trainsets were valued using a depreciated replacement cost approach as market value data is limited

The North of London trainsets were also initially valued using a depreciated replacement cost approach however due to limited future market prospects for the trainsets they are held in the balance sheet at a significantly reduced level close to their scrap value as assessed at that time

Brand valuation
The Brand was valued using a relief from royalty approach based upon expected future revenues

Other – software
Software was valued using a cost to recreate approach

Stock and Stock Obsolescence
The Directors are required to exercise significant judgement in determining provisions necessary to reduce stock to its net realisable value where there is evidence that the stock is obsolete, surplus or in need of repair

Notes *(continued)*

2 Significant Accounting Estimates and Judgements *(continued)*

Useful economic life of assets, depreciation and residual value
In July 2011 the Group signed a contract for the purchase of 10 new trainsets which, given current fleet usage, will replace 14 of the existing inter-capital sets In anticipation of the expected delivery of the new trainsets from 2014, management has had to make assumptions about the remaining useful economic life and residual values of the existing inter-capital sets

No Shows
The deferred income recognised in relation to 'No Shows' is based upon historical trends in traveller numbers who do not travel on their ticket and, where applicable, whether they subsequently request a refund or exchange

Eurostar Frequent Traveller ('EFT') provision
The provision for future costs relating to the EFT scheme, recognised as deferred income, is based upon historical trends in redemption of points

Deferred tax asset
Due to the limited amount of historical trading data for the newly combined business it is difficult to ascertain the probable use of losses with any certainty and therefore the deferred tax asset recognised has been limited to those losses which are expected to be utilised in a restricted time frame of approximately 5 years

3 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements

3.1 Business Combinations

Pursuant to the purchase method, the identifiable assets and liabilities of the acquired company that meet IFRS recognition criteria are recognised at their fair value at the acquisition date, except for assets classified as held for sale, which are measured at fair value less costs to sell

Only identifiable liabilities meeting the recognition criteria of a liability or contingent liability in the acquired company are recognised at the acquisition date for the purpose of allocating the cost of the business combination

The difference between the purchase cost and the Group's interest in net assets acquired, at fair value, is recognised as goodwill Any negative goodwill is released to the Statement of Comprehensive income Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred

Adjustments to the fair value of assets and liabilities acquired as part of a business combination initially recognised based on provisional values (due to ongoing external valuation procedures or outstanding additional analyses), are recognised as retrospective adjustments to goodwill if they arise in the 12 months following the acquisition date After this period, any adjustments are recognised directly in profit or loss unless they represent corrections of an error

Notes *(continued)*

3 Accounting policies *(continued)*

3.2 Translation of Foreign Currency Transactions

Foreign currency-denominated transactions are translated into its functional currency at the exchange rate prevailing at the transaction date

Monetary items in the balance sheet are retranslated at the closing exchange rate at each balance sheet date, and the resulting translation differences are recorded in profit or loss or as a separate component of Shareholders' funds if they relate to hedging transactions qualifying as net investment or cash flow hedges under IFRS

3.3 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to pounds sterling at exchange rates at the reporting date The income and expenses of foreign operations are translated to pounds sterling at exchange rates at the dates of the transactions

Foreign currency differences are recognised in other comprehensive income Since 31 August 2010, the Group's date of transition to IFRSs, such differences have been recognised in the translation reserve

3.4 Intangible Assets

Intangible assets primarily comprise the Eurostar brand, licences and software They are recorded at historical cost or, where necessary, at fair value on the date of acquisition if such assets are acquired in connection with a business combination

Where an intangible asset has a finite life (e g software), it is amortised on a straight-line basis over its period of use, being 4 years for software

Where an intangible asset has an indefinite life (e g the Eurostar brand), it is not amortised but is subject to impairment tests at least once a year

3 5 Property, Plant and Equipment

The property, plant and equipment of the Group includes assets owned outright and assets purchased under finance lease agreements

Property, plant and equipment owned outright are recorded at purchase cost Property, plant and equipment acquired as part of a business combination are recorded at their fair value on entry into the consolidation scope

Maintenance and repair expenses are recognised as follows

- current maintenance expenses borne during the useful life of equipment (repair work on faulty spare parts and replacement of unusable and missing parts) are recorded as operating expenses,
- expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated over the shorter of the period to the next major overhaul and the remaining useful life of the asset

Notes *(continued)*

3 Accounting policies *(continued)*

3.5 Property, Plant and Equipment *(continued)*

Property, plant and equipment are depreciated over the following periods using the straight line basis

Rolling Stock	
Structure	30 years
Overhaul	15 years
Interior	7 – 15 years
Freehold buildings	34 – 40 years
Leasehold improvements	Shorter of useful life or remaining lease term
Plant & Machinery	4 years
Repairable spare parts	End of life of the related rolling stock

Depreciation on assets under construction commences only when the asset is brought into use, at which point it is transferred to one of the above asset classes

Accelerated depreciation is recorded where a change in useful life or residual value arises

3.6 Impairment of Intangible Assets, Property, Plant and Equipment

The Group assesses whether there is an indication that an asset has been significantly impaired at each balance sheet date Where there is such an indication, an impairment test is performed

Indefinite-life intangible assets are subject to an impairment test each year and whenever there is an indication of loss in value

Property, plant and equipment and intangible assets with finite lives are subject to impairment when events or circumstances during the period (obsolescence, physical deterioration, significant changes in the method of utilisation, performances falling short of forecasts, decline in revenues, other external indicators, etc), indicate that a loss in value may have occurred and that the recoverable amount may be less than the net carrying amount

Impairment tests consist of comparing the net carrying amount of an asset with its recoverable amount, equal to the higher of the fair value less costs to sell and the value in use

The value in use corresponds to the value of the future economic benefits expected from the asset's use or removal It is assessed based on discounted future cash flows determined according to economic assumptions and projected operating conditions adopted by EIL management

- the cash flows are determined in business plans, drawn up for periods of 5 years and validated by the Board,
- beyond this timeframe, the flows are extrapolated by applying a perpetual growth rate that is close to the long-term inflation rate expected by the Group, subject to the expected useful life of the assets tested or the indefinite life for indefinite-life intangible assets,
- flows are discounted at a rate appropriate to the activity sector,
- Impairment losses recorded on goodwill cannot be reversed

Notes *(continued)*

3 Accounting policies *(continued)*

3.7 Lease transactions

Leased assets are recorded as purchases financed by loan when the contract terms and conditions correspond to finance lease arrangements Finance lease agreements are contracts whereby the lessor transfers to the lessee the right to use an asset for a given period in exchange for payment and the lessor transfers all benefits and risks inherent to ownership of the asset The appraisal criteria applied to these agreements are based on the following

- the lease term is for the major part of the estimated economic life of the leased asset,
- the present value of the minimum lease payment under the agreement is close to the fair value of the leased asset,
- the leased assets are of such a specific nature that only the lessee can use them without significant modification

The assets concerned are recorded in assets at the lower of the discounted present value of the minimum lease payments and fair value and depreciated over the same period as equivalent assets owned outright

Lease agreements not having the characteristics of finance leases are recorded as operating leases and only the lease instalments are recorded in profit or loss

Lease payments that are made in advance are recorded as prepayments Where such payments cover a period greater than 12 months the future value is discounted to the present value using an appropriate rate

3.8 Inventories

Inventories consist of consumables

Inventories are valued at the lower of cost price and net realisable value Cost price is calculated using the weighted average cost method

Inventories are written-down based on the turnover, nature, age and useful life of items

3.9 Financial Assets

Financial assets are classified in current assets if they mature in less than 12 months If financial assets mature in more than 12 months, they are presented in non-current assets

3 10 Cash and cash equivalents

Cash and cash equivalents consist of immediately available liquid assets (cash) and short-term investments, easily converted into a known amount of cash with an initial maturity of less than or equal to three months and which are exposed to a negligible risk of change in value

Current bank facilities classified in current financial liabilities are included in cash and cash equivalents in the Statement of Cash Flows

Notes *(continued)*

3 Accounting policies *(continued)*

3.11 Trade and Other Receivables

Receivables are recorded at nominal value on issue, except for receivables with a maturity of more than one year, which are discounted to present value where the impact of discounting is material

Impairment is recognised when there is a potential risk of non-recovery This impairment is determined based on an individual appraisal of non-recovery risk using historical data

3.12 Financial Liabilities

These instruments are included in non-current liabilities, except for liabilities maturing in less than 12 months at the balance sheet date, which are recorded in current liabilities

Borrowings and other financial liabilities are initially measured at fair value less transaction costs and subsequently at amortised cost determined using the effective interest rate

The fair value of financial liabilities is determined using measurement techniques such as the discounted cash flow method

3.13 Borrowing costs

General and specific 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, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

3.14 Income taxes

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed It is calculated using rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Notes *(continued)*

3 Accounting policies *(continued)*

3 15 Provisions

Provisions are recorded when, at the balance sheet date, the Group has a present obligation to a third party as a result of a past event and the settlement of this obligation will require an outflow of company resources

This obligation may be legal, regulatory or contractual and may result from Group practice or external commitments that create valid expectations in third parties that the Group will assume certain responsibilities

The estimated amount of the provision reflects the outflow of resources that is likely to be necessary to settle the Group's obligation If a reliable estimate of this amount cannot be made, a provision is not recorded and disclosure is provided in the notes to the financial statements

A contingent liability is a possible obligation that arises from past events whose existence will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Group, or a probable obligation where it is not probable that an outflow of resources will be required Except for contingent liabilities recognised as part of a business combination, contingent liabilities are not recorded Disclosure is provided in the notes to the financial statements

Provisions are discounted where the impact of discounting is material

3.16 Employee Benefits

The Group participates in the Eurostar Section of the Railways Pension Scheme, a defined benefit scheme, which provides benefits to eligible Group employees

The actuarial liability (or present value of the obligation with respect to defined benefits) enabling the recognition of obligations is determined according to the projected unit credit actuarial method, which stipulates that each period of service gives rise to an additional unit of benefit and measures each unit separately to determine the final obligation These calculations include assumptions concerning the discount rate, mortality, employee turnover and expected future salary levels Given that the pension scheme is a 60 40 shared cost scheme with employees, the Group recognises 60% of the scheme surplus or deficit, as adjusted for the employer's share of unrecognised net actuarial gains or losses, in the balance sheet

Actuarial gains and losses are recognised only where these amounts exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, measured at the start of the reporting period Such amounts are recognised over the remaining expected working lives of the employees

The portion recognised equals this amount divided by the expected average remaining working lives of participating employees The portion of the net charge corresponding to service costs is recorded in operating profit (including actuarial gains and losses and past service costs amortised) and the portion of the net charge corresponding to the interest expense is recorded in finance costs (net of the expected return on plan assets, if any)

Past service costs are expensed on a straight-line basis over the average remaining vesting period of rights, unless such rights are immediately vested, in which the case past service costs are immediately recorded in profit or loss

Notes *(continued)*

3 Accounting policies *(continued)*

3.17 Revenue Recognition

Revenue from train services is recognised in the statement of comprehensive income on the date when the passenger travels

Other revenue is recognised at the time the service is provided or the goods are sold

Revenue recognised in the systems on the issue of a passenger ticket is adjusted at the period-end for tickets issued but not used, which are recorded in deferred income These "no show" estimates are based on historical trends relating to booking and refund/exchange patterns

The fair value of customer loyalty points issued with the sale of tickets is separated from revenue and recorded in deferred income until the points are redeemed

The Group provides for customer compensation for service delay or cancellation, which in all cases meets or exceeds the levels set out under the Passenger Rights Regulations

3.18 Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss Interest income is recognised as it accrues in profit or loss, using the effective interest method Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established

3.19 Finance Costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method

Foreign currency gains and losses are reported on a net basis

3.20 Exceptional items

Items are classed as exceptional where they are material in amount, not expected to recur, and separate disclosure is required to enhance understanding of the results for the year

3.21 Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment

Notes *(continued)*

3 Accounting policies *(continued)*

3.22 Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent

For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss as incurred Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in Shareholders' funds The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in Shareholders' funds remains there until the forecast transaction affects profit or loss When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss

Notes *(continued)*

4 Adopted IFRS not yet applied

The following new standards, amendments and interpretations, issued by the International Accounting Standards Board ('IASB') or the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee or IFRIC), are effective for periods beginning after 31 December 2011 and have not been applied in preparing these consolidated financial statements

Standard	Adopted by EU
Changes that apply from 1 January 2012	
Amendment to IAS 12 'Income Taxes'	×
Changes that apply from 1 July 2012	
Presentation of Items of Other Comprehensive Income – Amendments to IAS 1	×
Changes that apply from 1 January 2013	
IAS 27 Consolidated and Separate Financial Statements	×
IAS 28 Investments in Associates and Joint Ventures	×
IFRS 7 Financial Instruments Disclosure	×
IFRS 10 Consolidated Financial Statements	×
IFRS 11 Joint Arrangements	×
IFRS 12 Disclosure of Interests in Other Entities	×
IFRS 13 Fair Value Measurement	×
Defined Benefit Plans – Amendments to IAS 19	×
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	×
Changes that apply from 1 January 2014	
IAS 32 Financial Instruments Presentation	×
Changes that apply from 1 January 2015	
IFRS 9 'Financial instruments'	×

The Directors have not determined the impact these changes will have on the Group and Company financial statements

Notes *(continued)*

5 Business combinations

As part of the 2010 Restructure, the Company acquired the SNCF and SNCB Eurostar businesses and assets in exchange for newly issued share capital Following the acquisition, SNCF controlled 55% of the issued share capital of the Group, and therefore retained control over the SNCF Eurostar business As a result, the acquisition has been treated as a reverse acquisition where the Group, along with the SNCB Eurostar business and assets, are treated as being acquired by the SNCF Eurostar business

The table below shows the fair values of EIL's and SNCB's Eurostar business' net assets, as recognised in the Group's net assets

Effect of acquisition
The acquisition had the following effect on the Group's assets and liabilities in 2010

	Pre-acquisition carrying amounts £m	Fair value adjustments £m	Recognised values on acquisition £m
EIL's net assets at the acquisition date:			
Property, plant and equipment	180 8	107 2	288 0
Intangible assets	-	43 8	43 8
Deferred tax assets	-	32 5	32 5
Inventories	23 0	4 0	27 0
Trade and other receivables	143 7	-	143 7
Share capital receivable	40 0	-	40 0
Cash and cash equivalents	0 6	-	0 6
Employee benefits	(47 4)	-	(47 4)
Interest-bearing loans and borrowings	(40 6)	-	(40 6)
Trade and other payables	(97 0)	(5 1)	(102 1)
Net identifiable assets and liabilities	203 1	182 4	385 5
Pension guarantee contributed			47 4
Working capital contributed			10 4
Total contributed			443 3
Consideration at fair value (see below)			333 0
Negative goodwill arising			(110 3)
SNCB's net assets at the acquisition date:			
Property, plant and equipment	69 5	3 9	73 4
Intangible assets	-	36 3	36 3
Inventories	4 5	-	4 5
Trade and other payables	(0 7)	-	(0 7)
Net identifiable assets and liabilities	73 3	40 2	113 5
Cash contributed			5 0
Total contributed			118 5
Consideration at fair value (see below)			41 6
Negative goodwill arising			(76 9)

Notes *(continued)*

5 Business combinations *(continued)*

	Pre-acquisition carrying amounts £m	Fair value adjustments £m	Recognised values on acquisition £m
EGL's net assets at the acquisition date			
Inventories	0 7	-	0 7
Trade and other receivables	20 6	-	20 6
Cash and cash equivalents	4 2	-	4 2
Trade and other payables	(21 5)	-	(21 5)
	4 0	-	4 0
Consideration at fair value			-
Negative goodwill arising			(4 0)
Total negative goodwill			(191 2)
Fair value of consideration:			
Contribution of EIL business at fair value			385 5
Contribution of SNCB business at fair value			113 5
Contribution of EGL at fair value			4 0
Contribution of SNCF business at book value			129 2
LCR capital contributed			57 8
Cash contributed for new share capital issued			60 0
			750 0
Fair value uplift of SNCF assets			
Property, plant and equipment			46 1
Intangible assets			36 3
Total fair value of consideration			832 4

The negative goodwill of £191 2m arose from the difference between the fair values of the assets contributed by the shareholders and their relative share ownerships of the combined business Share ownership percentages were derived from a previous valuation based on forward-looking forecasts of profitability under the 'old' ownership structure, discounted and apportioned by the shareholders to arrive at an ownership of 55% SNCF, 40% LCR and 5% SNCB

This negative goodwill of £191 2m has been released to the consolidated income statement in the prior period

Intangible assets include the Eurostar brand which was previously owned equally between EIL, SNCF and SNCB As a result of the business combination the portions previously owned by EIL and SNCB have been fair valued at £36 3m each

As the business combination results in a single combined business the impact of the combination on the Group's revenue and cash flows are not separately identifiable and have not been disclosed

Notes *(continued)*

6 Revenue

	Year ended 31 December 2011 £m	4 months to 31 December 2010 £m
Train services	**793.4**	243 9
Other revenue	**31.3**	9 0
Total revenue	**824.7**	252 9

7 Expenses and auditors' remuneration

Included in the Consolidated Statement of Comprehensive Income are the following

	Year ended 31 December 2011 £m	4 months to 31 December 2010 £m
Infrastructure costs		
Eurotunnel	**208.7**	69 5
UK	**72.8**	29 1
France	**66.2**	15 0
Belgium	**5.0**	1 6
Other	**17.1**	4 1
	369.8	119 3
Exceptional items		
Winterisation modifications project	-	2 4
2010 Restructure cost	-	1 2
	-	3 6

The Winterisation modifications project related to the costs incurred adapting the trainsets to improve their reliability when running in wintry conditions This work delivered the recommendations of the Garnett/Gressier independent review, published in February 2010, significantly ahead of the expected schedule

The 2010 Restructure costs were the costs incurred in completing the project in 2010

Notes *(continued)*

7 Expenses and auditors' remuneration *(continued)*

Auditors' remuneration

	Year ended 31 December 2011 £000	4 months to 31 December 2010 £000
KPMG Audit Plc		
- audit of these financial statements	133	137
- additional fees for the audit of prior period financial statements	142	-
- audit of financial statements of subsidiaries pursuant to legislation	4	13
- tax compliance	76	-
- other	221	130
	576	280
Mazars LLP		
- audit of these financial statements	138	150
- additional fees for the audit of prior period financial statements	81	-
- other	34	25
	253	175

Amounts paid to the company's auditors and their associates in respect of services to the company, other than the audit of the company s financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis

8 Staff numbers and costs

The average staff numbers (including Executive Directors) in the year were as follows

	Year ended 31 December 2011	4 months to 31 December 2010
Operations and Customer Services	1,225	1,231
Commercial and Head Office	466	469
Total	1,691	1,700

The aggregate payroll costs were as follows

	Year ended 31 December 2011 £m	4 months to 31 December 2010 £m
Wages and salaries	77.0	26 3
Social security costs	8.7	2 9
Expenses related to defined benefit plans	5.9	2 1
	91.6	31 3

Details of Directors' remuneration is included within staff costs are set out on page 11

Notes *(continued)*

9 Finance income and expense

Recognised in profit or loss

	Year ended 31 December 2011 £m	4 months to 31 December 2010 £m
Finance income		
Net foreign exchange gain	-	3.4
Expected return on defined benefit pension plan assets	**9.9**	2.6
Other finance income	**3.0**	2.3
Total finance income	**12.9**	8.3
Finance expense		
Net foreign exchange loss	**1.4**	-
Interest on defined benefit pension plan obligation	**8.4**	2.4
Other finance expense	**1.0**	1.6
Finance expense before exceptionals	**10.8**	4.0
Exceptional item – swaption costs	**5.7**	-
Total finance expense	**16.5**	4.0

In January 2011, the Company purchased a swaption in order to manage the Group's exposure to interest rate risk in relation to the financing of the new rolling stock. This gave rise to a £5.7m charge to the income statement.

Notes *(continued)*

10 Taxation

Recognised in the Consolidated Statement of Comprehensive Income

(a) Tax on profit on ordinary activities

	Year ended 31 December 2011 £m	4 months to 31 December 2010 £m
Current tax expense		
UK tax	-	-
Foreign tax	**0.4**	0 8
Adjustments in respect of prior periods (foreign tax)	**0.2**	-
Current tax charge	**0 6**	0 8
Deferred tax		
Recognition of tax losses	**(3.7)**	-
Adjustments in respect of rate change	**3.7**	-
Deferred tax charge	**-**	-
Tax charge for the period	**0.6**	0 8

(b) Reconciliation of the total tax charge

The tax charge for the year on the profit on ordinary activities is less (2010 less) than the notional tax charge on those profits calculated at the UK corporation tax rate of 26 5% (2010 28%) The differences are explained below

	Year ended 31 December 2011 £m	4 months to 31 December 2010 £m
Profit on ordinary activities before taxation	**21.4**	191 3
Tax at the UK corporation tax rate of 26 5% (2010 28%)	**5.7**	53 6
Non-deductible expenses	**15.7**	0 9
Temporary differences for which no deferred tax asset was recognised	**(20.8)**	-
Other permanent differences	**(0.2)**	-
Non-taxable gain	**-**	(53 6)
Current year losses for which no deferred tax asset was recognised	**-**	(0 9)
French rolling stock tax	**-**	0 8
Adjustments in respect of prior periods	**0 2**	-
Total tax expense	**0.6**	0 8

A resolution was passed by Parliament on 29 March 2011 to reduce the corporation tax rate to 26% (previously 28%) from 1 April 2011, therefore a rate of 26 5% has been reflected in these accounts in calculating the current tax

Notes *(continued)*

11 Property, plant and equipment – Group

	Rolling stock	Repairable spares *(restated)*	Plant and equipment	Land and buildings	Assets under construction	Total *(restated)*
	£m	£m	£m	£m	£m	£m
Cost						
Balance at 31 August 2010	325 6	17 9	0 7	-	-	344 2
Acquisitions through business combinations	343 4	25 0	5 4	12 4	-	386 2
Additions	4 4	1 2	0 2	0 2	-	6 0
Balance at 31 December 2010	673 4	44 1	6 3	12 6	-	736 4
Additions	5 1	3 8	0 5	1 6	169 8	180 8
Impairment	(3 7)	(2 7)	-	-	-	(6 4)
Transfers	(16 4)	13 5	-	-	2 9	-
Balance at 31 December 2011	658 4	58 7	6 8	14 2	172 7	910 8
Depreciation and impairment						
Balance at 31 August 2010	196 9	-	0 5	-	-	197 4
Depreciation charge for the year	12 6	1 1	0 5	0 1	-	14 3
Balance at 31 December 2010	209 5	1 1	1 0	0 1	-	211 7
Depreciation charge for the year	46 0	3 6	2 0	1 3	-	52 9
Transfer	(1 5)	1 5	-	-	-	-
Balance at 31 December 2011	254 0	6 2	3 0	1 4	-	264 6
Net book value						
At 31 December 2011	**404.4**	**52.5**	**3.8**	**12.8**	**172.7**	**646.2**
At 31 December 2010	463 9	43 0	5 3	12 5	-	524 7

Leased rolling stock

At 31 December 2011 the net book value of leased rolling stock was £113 1m (2010 £122 9m) The lease obligations are secured against leased equipment (see note 18)

Impairment

Following the decision that one trainset will not be put into commercial service, an impairment charge of £3 7m was recorded against the carrying value of that trainset, with the remaining carrying value being transferred to repairable spares

A detailed review of the repairable spares carrying value was undertaken following the update of the fleet plan in the year This identified surplus spares to the value of £2 7m which has been recorded as an impairment charge in the year

Capitalisation of borrowing costs

Included within assets under construction are payments made to Siemens Plc in relation to the purchase of new trainsets Borrowing costs associated with this transaction, totalling £1 5m as at 31 December 2011, have also been capitalised (2010 £nil)

Notes *(continued)*

11 Property, plant and equipment – Group *(continued)*

Changes in estimates

On 21 July, following the Inter Governmental Commission approval of distributed power and satisfaction of the financing drawdown conditions, the final instalment of a deferred milestone payment under the Group's contract with Siemens Plc was made As a result of this, an impairment review was performed and the depreciation rate for the existing fleet was reassessed The impairment review assessed cashflow projections over the next five years using the Board approved business plan and a discount rate of 8 5%, which were then sensitised

The impairment review did not identify any impairment to the carrying value of the trainsets However, management believes that as a result of the commitment to purchase the additional trainsets, it is appropriate to increase the depreciation rate of certain trainsets to better reflect their use within the business

The effect of this change in depreciation expense in the current and future periods is as follows

	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Increase in depreciation expense	8 9	17 7	17 7	17 7	17 7	-

Property, plant and equipment – Company

	Rolling stock £m	Repairable spares *(restated)* £m	Plant and equipment £m	Land and buildings £m	Assets under construction £m	Total *(restated)* £m
Cost						
Balance at 31 August 2010	325 6	17 9	0 7	-	-	344 2
Acquisitions through business combinations	312 2	25 0	5 4	12 4	-	355 0
Additions	4 4	1 2	0 2	0 2	-	6 0
Balance at 31 December 2010	642 2	44 1	6 3	12 6	-	705 2
Additions	5 1	3 8	0 5	1 6	169 8	180 8
Impairment	(3 7)	(2 7)	-	-	-	(6 4)
Transfers	(16 4)	13 5	-	-	2 9	-
Balance at 31 December 2011	627 2	58 7	6 8	14 2	172 7	879 6
Depreciation						
Balance at 31 August 2010	196 9	-	0 5	-	-	197 4
Depreciation charge for the year	12 0	1 1	0 5	0 1	-	13 7
Balance at 31 December 2010	208 9	1 1	1 0	0 1	-	211 1
Depreciation charge for the year	44 1	3 6	2 0	1 3	-	51 0
Transfer	(1 5)	1 5	-	-	-	-
Balance at 31 December 2011	251 5	6 2	3 0	1 4	-	262 1
Net book value						
At 31 December 2011	**375 7**	**52.5**	**3.8**	**12.8**	**172.7**	**617.5**
At 31 December 2010	433 3	43 0	5 3	12 5	-	494 1

Notes *(continued)*

11 Property, plant and equipment – Company *(continued)*

Leased rolling stock

At 31 December 2011 the net carrying amount of leased rolling stock was £113 1m (2010 £122 9m) The lease obligations are secured against leased equipment (see note 18)

12 Intangible assets – Group and Company

	Brand £m	Software £m	Assets under construction £m	Total £m
Cost				
Balance at 31 August 2010	-	4 6	-	4 6
Acquisitions through business combinations	72 6	7 5	-	80 1
Balance at 31 December 2010	72 6	12 1	-	84 7
Additions	-	-	2 0	2 0
Balance at 31 December 2011	72 6	12 1	2 0	86 7
Amortisation				
Balance at 31 August 2010	-	3 4	-	3 4
Amortisation for the year	-	0 9	-	0 9
Balance at 31 December 2010	-	4 3	-	4 3
Amortisation for the year	-	2 6	-	2 6
Balance at 31 December 2011	-	6 9	-	6 9
Net book value				
At 31 December 2011	**72.6**	**5.2**	**2.0**	**79.8**
At 31 December 2010	72 6	7 8	-	80 4

The brand is considered to have an indefinite useful life and so no amortisation has been recognised Instead, the brand is tested at least annually for impairment The most recent impairment test was carried out at 31 December 2011

The brand has been tested for impairment through value in use calculations of the cash-generating unit ('CGU') For the purposes of impairment testing, the brand has been allocated to the Company and Group's single CGU

In assessing whether a write-down of the brand is required, the carrying value of the CGU is compared with their recoverable amount The recoverable amount for the CGU has been measured based on value in use ('VIU') The key assumptions used in calculating VIU relate to sales and EBITDA over five years, the discount rate and the growth rate used in calculating terminal values

Notes *(continued)*

12 Intangible assets – Group and Company *(continued)*

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU The growth rates are based on independent economic forecasts and management's assessment of the impact of external events such as the Olympics and the publicly announced intentions of other companies operating in this sector Changes in selling prices and direct costs are based on past practices and expectations of future commercial and regulatory changes in the market It is anticipated that sales volumes will grow at a similar level to the current year over the next one to two years as the Group continues to pursue its strategy of improving service and standards

The Group prepares cash flow forecasts derived from the most recent financial budget and plan approved by management for the next five years and extrapolates cash flows for the following years based on an estimated growth rate of two to three per cent This rate does not exceed the average long-term growth rate for the sector The rate used to discount the forecast cash flows is 8 5% per cent

13 Investments in subsidiaries – company

	2011 £m	2010 £m
Balance brought forward	13 3	-
Acquisitions through business combinations	-	13 3
Impairment	(0 1)	-
Balance carried forward	13 2	13 3

The Company has the following investments in subsidiaries

	Shares Held %	Principal Activity	Country of registration
Eurostar (U K) Limited	100	Dormant	England and Wales
Eurostar Express Limited	100	Leasing trainsets	England and Wales
European Passenger Services Limited	100	Holding Company	England and Wales
Eurostar Group Limited	100	Non-trading	England and Wales
Eurostar International SAS	100	See below	France
Eurostar International SPRL	100	See below	Belgium

Eurostar International SAS and Eurostar International SPRL supply certain defined services to EIL These include train operating services including train driver services, train management services, on board customer care, security, dealing with train delays and organisation of train connections

Notes *(continued)*

14 Deferred tax assets and liabilities

The analysis of deferred tax assets and liabilities is as follows

Group and company

Deferred tax assets and liabilities are attributable to the following

	Assets 31 December 2011 £m	Assets 31 December 2010 £m	Assets 31 August 2010 £m
Deferred tax assets to be recovered after more than 12 months	(45 8)	(32 5)	-
Deferred tax liabilities to be recovered after more than 12 months	3 7	-	-
Deferred tax assets (net)	(42 1)	(32 5)	-

The gross movement on the deferred tax account is as follows

	31 December 2011 £m	31 December 2010 £m
At the beginning of the period	(32 5)	-
Income statement charge	(3 7)	(32 5)
Tax credited directly to shareholders' funds	(10 4)	-
Write-down of DTA on UK tax rate change – to income statement	3 7	-
Write-down of DTA on UK tax rate change – to shareholders' funds	0 8	-
At 31 December	(42 1)	(32 5)

The movement in deferred tax assets and liabilities during the year is as follows

	Tax losses £m	**Fair value losses £m**	**Total £m**
Deferred tax assets			
At 31 August 2010	-	-	-
Acquired in business combination	(32 5)	-	(32 5)
At 31 December 2010	(32 5)	-	(32 5)
Credited directly to shareholders' funds	-	(13 3)	(13 3)
At 31 December 2011	**(32.5)**	**(13.3)**	**(45.8)**

	Retirement benefit obligations £m	**Total £m**
Deferred tax liabilities		
At 31 August and 31 December 2010	-	-
Charged directly to shareholders' funds	3 7	3 7
At 31 December 2011	**3.7**	**3.7**

Notes *(continued)*

14 Deferred tax assets and liabilities *(continued)*

Deferred tax assets and liabilities are recognised to the extent that the realisation of the related tax benefits and charges in future periods are probable The group did not recognise deferred tax assets of £476m in relation to tax losses and other temporary differences amounting to £1 9bn which can be carried forward indefinitely

Prior to the balance sheet date, the reduction in the UK corporation tax rate to 25% effective from 1 April 2012 was substantively enacted As a result, the recognised deferred tax assets and liabilities have been measured at this rate On 21 March 2012, it was announced that the UK corporation tax rate effective from 1 April 2012 would be reduced to 24%, but as these changes were not substantively enacted at the balance sheet date, they are not recognised in these financial statements

15 Inventories

	Group 31 December 2011 £m	Group 31 December 2010 *(restated)* £m	Group 31 August 2010 *(restated)* £m	**Company 31 December 2011 £m**	Company 31 December 2010 *(restated)* £m	Company 31 August 2010 *(restated)* £m
Consumables	7 3	6 5	-	7 3	6 5	-

The write-down of inventories to net realisable value amounted to £0 5m (2010 £0 2m)

16 Trade and other receivables

	Group 31 December 2011 £m	Group 31 December 2010 £m	Group 31 August 2010 £m	**Company 31 December 2011 £m**	Company 31 December 2010 £m	Company 31 August 2010 £m
Trade receivables due from parent	13 3	11 4	-	12 5	11 4	-
Other trade receivables	13 2	7 5	2 5	14 0	29 8	2 5
Interest receivable	0 1	0 1	-	0 1	0 1	-
Prepayments	72 0	66 1	-	70 1	64 7	-
Guaranteed pension receivable	-	47 2	-	-	47 2	
Pension asset	14 8	-	-	14 8	-	-
Other receivables	77 3	116 3	27 1	93 1	115 3	27 1
	190 7	248 6	29 6	204 6	268 5	29 6
Non-current	40 4	130 9	27 1	40 5	130 9	27 1
Current	150 3	117 7	2 5	164 1	137 6	2 5
	190 7	248 6	29 6	204 6	268 5	29 6

17 Cash and cash equivalents

	Group 31 December 2011 £m	Group 31 December 2010 £m	Group 31 August 2010 £m	**Company 31 December 2011 £m**	Company 31 December 2010 £m	Company 31 August 2010 £m
Cash and cash equivalents	120 4	164 6	-	120 2	163 7	-

Notes *(continued)*

18 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 22

	Group 31 December 2011 £m	Group 31 December 2010 £m	Group 31 August 2010 £m	**Company 31 December 2011 £m**	Company 31 December 2010 £m	Company 31 August 2010 £m
Non-current liabilities						
Secured bank loans	59 3	-	-	59 3	-	-
Finance lease liabilities	43 8	54 9	15 8	43 8	54 9	15 8
	103 1	54 9	15 8	103 1	54 9	15 8
Current liabilities						
Current portion of finance lease liabilities	9 6	9 5	24 1	9 6	9 5	24 1

Term and debt repayment schedule

	Nominal interest rate	Year of maturity	31 December 2011 Face value	Carrying amount	31 December 2010 Face value	Carrying amount	30 August 2010 Face value	Carrying amount
Secured bank loan								
GBP facility	4 05%	2026	£55 3m	See below	-	-	-	-
EUR facility	3 55%	2026	€21 1m	See below	-	-	-	-

The GBP and EUR facilities above are part of the same financing arrangement and are carried at amortised cost As elements of this calculation sit across both facilities, it is not possible to allocate the total £59 3m carrying value between the two The effective interest rate is 6 7%

The bank loans are secured over the Company's owned trainsets, the carrying value of which was £377 3m as at 31 December 2011

The amount of undrawn facility is £401 2m on which commitment fees of 0 6% per annum are due to ensure the facility is kept available

There have been no defaults or breaches in respect of the bank loans in the year

Finance lease liabilities

31 December 2011

Finance lease liabilities are payable as follows

Group and company	**Minimum lease payments** £m	**Interest** £m	**Principal** £m
Less than one year	15 2	5 6	9 6
Between one and five years	31 1	12 8	18 2
More than five years	26 5	1 0	25 6
	72 8	19 4	53 4

Notes *(continued)*

18 Other interest-bearing loans and borrowings *(continued)*

31 December 2010

Finance lease liabilities are payable as follows

Group and company	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	13 4	3 9	9 5
Between one and five years	38 5	12 9	25 6
More than five years	34 3	5 0	29 3
	86 2	21 8	64 4

The Group has no purchase option in respect of the leases

19 Trade and other payables

	Group 31 December 2011 £m	Group 31 December 2010 £m	Group 31 August 2010 £m	**Company 31 December 2011 £m**	Company 31 December 2010 £m	Company 31 August 2010 £m
Current						
Trade payables due to parent	6 8	11 6	-	5 3	11 7	-
Other trade payables	15 3	11 7	-	16 4	15 0	-
Accruals and deferred income	138 5	110 4	8 5	138 7	108 8	8 5
Other payables	20 7	63 8	-	24 1	64 3	-
	181 3	197 5	8 5	184 5	199 8	8 5

None of the amounts included within trade and other payables are expected to be settled in more than 12 months

20 Pensions

The Company contributes to the Eurostar Shared Cost Section' of the Railways Pension Scheme ('RPS'), which provides defined benefits, based on final pensionable earnings, to employees of the Group The assets of the funded scheme are held separately from those of the Group, being invested in managed funds

The latest actuarial assessment of the RPS Eurostar Section was as at 31 December 2010 which revealed that the accrued liabilities of £315 6m exceeded the market value of the scheme's assets by 28% having taken into account the level of contributions set out below The main assumptions used were price inflation of 3 2% per annum, that the rate of investment return would be between 1 5% and 2 25% per annum above the rate of price inflation, and that future pensionable pay awards would exceed price inflation by 0 5% per annum The long term funding rate has emerged at 26 0%

Notes *(continued)*

20 Pensions *(continued)*

The contributions of the Group and the employees were initially set during the period of Government ownership at a reduced level such that there would be no significant anticipated surplus or deficit for the schemes on a long-term basis A surplus was being utilised over the period to September 2003 during which time it was originally proposed to maintain the employer and employee contributions at the reduced rates of 7 5% and 5% respectively (12 5% total) As the long term funding rate rose, however, it was agreed to increase total contributions to 15% from July 2000, 17 5% from 1 January 2003, 20% from July 2003, 22 5% from January 2004, 25% from 1 July 2005, and 26 4% from September 2008 The rate is expected to fall to the long term funding rate from January 2018 In each case the employee and employer shares are 40% and 60% respectively (aside from a minor adjustment in September and October 2008 when the employer absorbed an additional element)

On 31 August 2010, the Company received a guarantee from LCR whereby any increase over the current funding rate identified in the 31 December 2010 actuarial valuation will be paid for by LCR, up to a financial cap As at 31 December 2010, this was recorded as a receivable equivalent to the value of the deficit reported below and reported in note 16 During 2011, LCR contributed £57 0m of employer contribution directly into the RPS Eurostar Section and discharged its guarantee to EIL in full

The actuarial scheme deficit at 31 December 2010 is derived from the above profile of assumed contribution rates The actuarial deficit and scheme contributions will be kept under regular review with contributions being set in consultation with the schemes trustees and advisors

The main assumptions used in the IAS 19 valuation are noted below

	31 December 2011 **% pa**	31 December 2010 % pa
Discount rate	4 9	5 5
Price inflation (RPI measure)	3 2	3 7
Increases to deferred pensions (CPI measure)	2 2	3 2
Pension increases (CPI measure)	2 2	3 2
Salary increases	3 7	4 2
Expected return on section assets *	7 1	7 9

* 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 Actuary s Asset Liability Modelling work,
- **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 up of cash holdings and the rate adopted reflects current short-term returns on such deposits

Notes *(continued)*

	Long-term rate of return expected on 31 December 2011	**Value at 31 December 2011**	Long-term rate of return expected on 31 December 2010	Value at 31 December 2010
	% pa	**£m**	% pa	£m
Equities	7 3	212 0	8 2	164 5
Government bonds	2 8	6 4	4 2	4 7
Non-Government bonds	4 2	6 1	5 0	4 2
Property	6 8	15 1	6 4	10 2
Other Assets	2 9	0 7	4 0	0 1
Total Asset Value	**7 1**	**240.3**	7 9	183 7

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

		31 December 2011	31 December 2010
Male currently aged 65	Pension under £8,500 pa or pensionable pay under £30,000 pa	20 5	19 8
	Others	22 6	21 5
Male currently aged 45	Pension under £8,500 pa or pensionable pay under £30,000 pa	22 8	22 2
	Others	24 9	23 7
Female currently aged 65	Pension under £3,000 pa or pensionable pay under £30,000 pa	22 4	21 7
	Others	24 8	22 7
Female currently aged 45	Pension under £3,000 pa or pensionable pay under £30,000 pa	24 9	23 2
	Others	27 1	24 2

Pension scheme asset/(liability)

	31 December 2011	31 December 2010
	£m	£m
Section liabilities	(262 0)	(248 8)
Value of assets	240 3	183 7
Deficit	(21 7)	(65 1)
Adjustment for the members share of deficit	8 7	26 0
Employer's share of unrecognised net actuarial loss/(gain)	27 8	(8 1)
Pension scheme asset/(liability)	14 8	(47 2)

Notes *(continued)*

20 Pensions *(continued)*

Reconciliation of pension scheme liability

	Year ended 31 December 2011 £m	Period ended 31 December 2010 £m
Opening pension scheme liability	(47 2)	(47 4)
Employer's share of pension cost	(4 3)	(1 9)
Employer contributions	62 2	2 1
Employer's share of s75 debt payment	4 1	-
Pension scheme asset/(liability)	14 8	(47 2)

Disclosed pension expense

	Year ended 31 December 2011 £m	Period ended 31 December 2010 £m
Employer's share of service cost (included within other operating expenses)	5 8	2 1
Employer's share of interest cost	8 4	2 4
Employer's share of expected return on assets	(9 9)	(2 6)
Employer's share of pension expense	4 3	1 9

Reconciliation of return on assets

	Year ended 31 December 2011 £m	Period ended 31 December 2010 £m
Expected return on Section assets	9 9	2 6
(Loss)/gain on Section assets	(14 1)	7 8
Actual return on Section assets	(4 2)	10 4

Notes *(continued)*

20 Pensions *(continued)*

Reconciliation of liabilities

	Year ended 31 December 2011 £m	Period ended 31 December 2010 £m
Opening Section liabilities	248 8	246 0
Service cost	9 6	3 5
Interest cost	14 0	4 0
Gain on Section liabilities	(1 5)	(0 7)
Actual benefit payments	(8 9)	(4 0)
Closing Section liabilities	262 0	248 8

Reconciliation of assets

	Year ended 31 December 2011 £m	Period ended 31 December 2010 £m
Opening Section assets	183 7	167 0
Expected return on assets	16 5	4 4
(Loss)/gain on assets	(23 5)	12 9
Employer contributions	62 2	2 1
Employer share of s75 debt payment	4 1	-
Members' share of s75 debt payment	2 8	-
Employee contributions	3 4	1 3
Actual benefit payments	(8 9)	(4 0)
Closing Section assets	240 3	183 7

The two tables above show the movement in the assets and liabilities of the Section as a whole Some of the figures therefore differ from those in the remaining disclosures, which reflect the Group's share of the costs and liabilities associated with the Section

Reconciliation of employer's share of net actuarial gains

	Year ended 31 December 2011 £m	Period ended 31 December 2010 £m
Opening employer's share of net gain	8 1	-
Employer's share of (loss)/gain on assets	(14 1)	7 8
Employer's share of (loss)/gain on liabilities	(21 8)	0 3
Closing employer's share of net (loss)/gain	(27 8)	8 1

Notes *(continued)*

20 Pensions *(continued)*

Historic information

	Year ended 31 December 2011 £m	Period ended 31 December 2010 £m
Section liabilities	262 0	248 8
Section assets	240 3	183 7
Deficit	(21 7)	(65 1)
Experience loss (liabilities)	27 4	1 0
Experience loss/(gain) (assets)	14 1	(7 8)

No comparatives are available prior to the period ended 31 December 2010 due to the 2010 Restructure

The Group expects to contribute approximately £5 4m to its defined benefit plans in the next financial year (Company £5 4m)

21 Share capital and reserves

Ordinary shares and preference shares

	Preference shares Number	Special shares Number	Ordinary shares Number
On issue at 31 August 2010	-	1	1,999
Issued for cash	-	-	3,000
Redemption of special share	-	(1)	1
New share capital subscribed	1	-	-
On issue at 31 December 2010 and 2011 – fully paid	1	-	5,000

	31 December 2011 £
Allotted, called up and fully paid	
5,000 ordinary shares of £1 each	5,000
1 preference share of £1 each	1
Shares classified in shareholders' funds	5,001

On 24 March 2011, French Railways Limited and SNCF transferred their respective holdings of 4 and 2746 shares to SNCF Voyages Developpement SAS, a wholly owned subsidiary of SNCF

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

During the prior period the Company issued 3,000 £1 ordinary shares for a consideration of £60 0m, settled in cash

LCR holds one LCR Preference Share The Preference Share carries no voting rights, but has priority over other classes of shares to payments of dividends and in the event of winding-up

Notes *(continued)*

21 Share capital and reserves *(continued)*

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred

22 Financial instruments

Fair values

There is no material difference between the carrying value of financial instruments shown in the balance sheet and their fair value

The financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows

	Group 31 December 2011 £m	Group 31 December 2010 £m	**Company 31 December 2011 £m**	Company 31 December 2010 £m
IAS 39 categories of financial instruments				
Loans and receivables				
Cash and cash equivalents (note 17)	**120.4**	164 6	**120.2**	163 7
Trade receivables (note 16)	**26.5**	18 9	**26.5**	41 2
Guaranteed pension receivable (note 16)	**-**	47 2	-	47 2
Other receivables (note 16)	**77.3**	100 9	**52 6**	100 6
Total loans and receivables	**224.2**	331 6	**199.3**	352 7
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 18)	**112.7**	64 4	**112.7**	64 4
Trade payables (note 19)	**22.1**	23 3	**21.7**	26 7
Other payables (note 19)	**20.7**	63 8	**24.1**	64 3
Non-derivative financial liabilities	**155.5**	151 5	**158.5**	155 4
Derivatives used for hedging	**53.2**	-	**53.2**	-
Derivative financial liabilities	**53.2**	-	**53.2**	-

Notes *(continued)*

22 Financial instruments *(continued)*

22 (b) Credit risk: Group and Company

Financial risk management

The Group's exposure to credit risk is limited by the fact that the Group generally receives cash at the point of sale which is in advance of travel There are certain categories of sales channels where this is not the case for example travel agents The largest single amount outstanding at the year end for a third party agent was £0 2m The carrying value of trade and other receivables equates to the Group's exposure to credit risk This is set out in note 16

In managing risk the Group assesses the risk of its counterparties (e g travel agents) before entering into a contract This assessment is based upon management knowledge and experience

Cash and cash equivalents in the Group amounted to £120 4m at 31 December 2011 (2010 £164 6m) In order to mitigate credit risk associated with this balance the Group has identified a number of banks with which to invest and has set a maximum deposit limit for each

The ageing of trade receivables at the balance sheet date was

Group	Gross 2011 £m	Impairment 2011 £m	Gross 2010 £m	Impairment 2010 £m
Not past due	26.1	-	12 7	-
Past due 1-30 days	0.2	-	1 4	-
Past due 31-90 days	0.1	-	5 3	0 6
Past due 91-180 days	0.1	-	1 4	1 3
More than 180 days	0.4	0.4	0 4	0 4
	26.9	0.4	21 2	2 3

Company	Gross 2011 £m	Impairment 2011 £m	Gross 2010 £m	Impairment 2010 £m
Not past due	26.1	-	35 0	-
Past due 1-30 days	0.2	-	1 4	-
Past due 31-90 days	0.1	-	5 3	0 6
Past due 91-180 days	0.1	-	1 4	1 3
More than 180 days	0.4	0.4	0 4	0 4
	26.9	0.4	43 5	2 3

Notes *(continued)*

22 Financial instruments *(continued)*

22 (b) Credit risk: Group and Company *(continued)*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows

	Group 2011 £m	Company 2011 £m
Balance at 31 August 2010	-	-
Impairment loss assumed on business combination	1 3	1 3
Impairment loss recognised	1 3	1 3
Impairment loss reversed	(0 3)	(0 3)
Balance at 31 December 2010	2 3	2 3
Amounts written off	(1 9)	(1 9)
Balance at 31 December 2011	0 4	0 4

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly

22 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due

Derivative financial instruments

Under interest rate swap contracts, the Group and Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts Such contracts enable the Group and Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract All of the derivative financial instruments are in place to match cash payments made on the floating rate debt

The fair values of the interest rate swaps are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates None of the cash flow hedge was considered ineffective in the year Payments due under the terms of the interest rate swaps are made monthly

Liquidity risk - Group

The Group's banking arrangements are considered to be adequate in terms of flexibility and liquidity for its cash flow needs, thus mitigating its liquidity risk Regular forward looking cash flow forecasts are prepared to ensure the Group has good visibility of cash flows Money deals are placed to ensure that these cash flow requirements are met whilst ensuring that an acceptable level of interest is earned

Notes *(continued)*

22 Financial instruments *(continued)*

22 (c) Liquidity risk *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements

31 December 2011

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Secured bank loans (note 18)	59 3	83 6	1 8	24 7	57 1
Finance lease liabilities (note 18)	53 4	72 8	15 2	31 1	26 5
Trade payables (note 19)	22 1	22 1	22 1	-	-
Other payables (note 19)	159 3	159 3	159 3	-	-
	294 1	337 8	198 4	55 8	83 6
Derivative financial liabilities					
Derivatives used for hedging	53 2	14 3	2 4	9 6	2 3

31 December 2010

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	1 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Finance lease liabilities (note 18)	64 4	86 2	13 4	38 5	34 3
Trade payables (note 19)	23 3	23 3	23 3	-	-
Other payables (note 19)	174 2	174 2	174 2	-	-
	261 9	283 7	210 9	38 5	34 3

There were no derivative financial instruments at 31 December 2010

Notes *(continued)*

22 Financial instruments *(continued)*

22 (c) Liquidity risk *(continued)*

Liquidity risk – Company

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements

31 December 2011

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	2 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Secured bank loans (note 18)	59 3	83 6	1 8	24 7	57 1
Finance lease liabilities (note 18)	53 4	72 8	15 2	31 1	26 5
Trade payables (note 19)	21 7	21 7	21 7	-	-
Other payables (note 19)	162 8	162 8	162 8	-	-
	297 2	340 9	201 5	55 8	83 6
Derivative financial liabilities					
Derivatives used for hedging	53 2	14 3	2 4	9 6	2 3

31 December 2010

	Carrying amount £m	Contractual cash flows £m	1 year or less £m	2 to 5 years £m	5 years and over £m
Non-derivative financial liabilities					
Finance lease liabilities (note 18)	64 4	86 2	13 4	38 5	34 3
Trade payables (note 19)	26 7	26 7	26 7	-	-
Other payables (note 19)	173 1	173 1	173 1	-	-
	264 2	286 0	213 2	38 5	34 3

There were no derivative financial instruments at 31 December 2010

Notes *(continued)*

22 Financial instruments *(continued)*

22 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments

The Group's approach to assessment of market risk is outlined in the Directors' Report

Group and Company

Market risk – Interest rate risk

The impact of a change of 100 basis points on all relevant floating interest rates on annualised interest receivable from cash deposits outstanding at the balance sheet date is £1 3m increase in interest income

A movement in interest rates would impact the payments made under the Ashford finance lease however this is mitigated by underwriting of the rental charges by DfT such that there is no net exposure to interest rate risk The trainset finance lease obligations are at fixed interest rates and are therefore not impacted by a change in interest rates

A movement in interest rates would impact the interest payments due under the bank loan However, this is mitigated through the use of interest rate swap contracts to effectively fix the net interest payable across the loan and swap contracts combined

The interest rate swap contracts mature in 2026, in line with the maturity profile of the debt There is no ineffective portion of the hedge instruments to be recorded

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2011 were £73 9m (2010 £nil)

At 31 December 2011, the fixed interest rates ranged between 4 85 and 6 35% (2010 n/a), and the main floating rates are LIBOR/EURIBOR plus a margin of either 1 1% or 2 1% Gains and losses recognised in the hedge reserve in shareholders' funds on interest rate

Interest rate swap contracts as at 31 December 2011 will be continuously released to the income statement within finance cost or capitalised as part of assets under construction as appropriate, until the repayment of the bank borrowings (note 18)

Notes *(continued)*

22 Financial instruments *(continued)*

22 (d) Market risk *(continued)*

Group and Company

Market risk - Foreign currency risk

Group

The Group's exposure to foreign currency risk is as follows This is based on the carrying amount for monetary financial instruments

31 December 2011

	Sterling £m	Euro £m	US Dollar £m	Total £m
Cash and cash equivalents (note 17)	96 0	24 0	0 4	120 4
Trade receivables (note 16)	5 3	20 7	0 5	26 5
Trade payables (note 19)	(8 4)	(13 7)	-	(22 1)
Net exposure	92 9	31 0	0 9	124 8

Company
31 December 2011

	Sterling £m	Euro £m	US Dollar £m	Total £m
Cash and cash equivalents (note 17)	96 0	23 8	0 4	120 2
Trade receivables (note 16)	5 3	20 7	0 5	26 5
Trade payables (note 19)	(8 4)	(13 3)	-	(21 7)
Net exposure	92 9	31 2	0 9	125 0

Sensitivity analysis

Group

A 10% percent weakening of the following currencies against the pound sterling at 31 December 2011 would have increased/(decreased) shareholders' funds and profit or loss by the amounts shown below This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant

31 December 2011

	Shareholders' funds £m	Profit or loss £m
€	1 3	1 5
$	(0 1)	(0 1)

A 10% percent strengthening of the above currencies against the pound sterling at 31 December 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant

Notes *(continued)*

22 Financial instruments *(continued)*

22 (d) Market risk (continued)

Company

A 10% percent weakening of the following currencies against the pound sterling at 31 December 2011 would have increased (decreased) shareholders' funds and profit or loss by the amounts shown below This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant

31 December 2011

	Shareholders' funds £m	Profit or loss £m
€	1 5	1 5
$	(0 1)	(0 1)

A 10% percent strengthening of the above currencies against the pound sterling at 31 December 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant

22 (e) Capital risk management

Group and Company

The Group regards its capital as comprising its Shareholders' funds, cash and cash equivalent, finance leases and borrowings The Group seeks to manage its capital in such a manner that the group safeguards its ability to continue as a going concern and to fund its future development In continuing as a going concern, it seeks to provide for returns to shareholders as well as enabling repayment of its liabilities as a trading business

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and buy-back of existing shares and issuing new borrowings or repaying existing borrowings

The Group's and Company's overall capital risk management strategy remains unchanged from 2010

Note 21 to the Financial Statements provides details regarding the Company's share capital and movements in the year There were no breaches of any requirements with regard to any relevant conditions imposed by the Company's Articles of Association during the periods under review

Details of the Company's working capital facilities are given in note 18 Such facilities are subject to certain financial performance covenants There have been no breaches of these covenants in the period under review

Notes *(continued)*

23 Operating leases

Operating lease rental payables

Non-cancellable operating lease rentals are payable as follows

	Trainsets 2011 £m	Land & Buildings 2011 £m	Trainsets 2010 £m	Land & Buildings 2010 £m
Less than one year	8 4	5 0	8 4	4 6
Between one and five years	29 2	16 7	33 4	16 6
More than five years	-	58 8	5 6	61 8
	37 6	80 5	47 4	83 0

The Group leases five trainsets under operating leases Of these one is leased until 31 December 2016 and four are leased until 31 December 2024 The lease costs have been prepaid from 1 September 2016

The Group leases space at a number of stations, train depot and storage sites and office space

Operating lease rental receivables

Non-cancellable operating lease rentals are receivable as follows

	Trainsets 2011 £m	Trainsets 2010 £m
Less than one year	2 3	2 3
Between one and five years	2 1	-
	4 4	2 3

The Group leases six trainsets under operating leases They are leased until 8 December 2015, with a break clause after two years following commencement

Group and Company

During the year, £13 4m (2010 £4 0m) was recognised as an expense in the income statement in respect of operating leases

24 Commitments

Capital commitments - Group and Company

On 3 December 2010, EIL signed a contract with Siemens Plc for the design, supply and maintenance of 10 new high speed trainsets, following a competitive tender exercise, in a contract worth up to £557m and a separate spare parts contract worth up to £95m Other contracted capital commitments total £69m At 31 December 2011, the Group's and Company's capital commitments outstanding totalled up to £377 4m (2010 £701m)

At 31 December 2011, the Company had capital commitments of £63 3m (2010 nil) with SNCF in respect of the mid-life overhaul and refurbishment of the current fleet

Notes *(continued)*

25 Contingencies

Group and company

The Company and its subsidiaries are, from time to time, parties to or affected by legal proceedings and claims and they enter into guarantees, financing arrangements and commitments which are in the ordinary course of business The Directors do not anticipate that the outcome of these proceedings, claims, guarantees, financing arrangements and commitments, either individually or in aggregate, will have a material adverse effect upon the Group's financial position Contingent liabilities relating to these contractual obligations are estimated to be less than £1m

Alstom Transport maintains its claim for damages against EIL (under its secondary argument or on appeal of the primary statutory basis) in relation to their unsuccessful bid to supply new high speed trainsets to EIL and the trial date is planned for 2013 No liability has been recorded in these accounts in relation to this matter as the Directors consider the likelihood of loss to be remote

26 Related parties

Group

Identity of related parties with which the Group has transacted

Related party	Relationship	Nature of transactions
SNCF	Parent	Provision of sales and distribution, maintenance, seconded staff, station occupancy, telecommunications and IT services Provision of leased trainsets
Avancial (Sysraildata)	Fellow subsidiary	Provision of IT services
Rail Europe 4A	Fellow subsidiary	Sales commission and provision of marketing services
Rail Europe Group Inc	Fellow subsidiary	Sales commission and provision of marketing services
Rail Solutions	Fellow subsidiary	Provision of IT services
SCI La Chapelle	Fellow subsidiary	Provision of rented accommodation
VSC Technologies	Fellow subsidiary	Provision of IT services
Secretary of State for Transport on behalf of HM Government ('DfT')	Other related party	Underwriting of finance lease obligations
London & Continental Railways Ltd	Other related party	Director services
SNCB	Other related party	Provision of sales and distribution, maintenance, seconded staff, station occupancy and leased trainsets

Notes *(continued)*

26 Related parties *(continued)*

Related party transactions

	Sales Year ended 31 December 2011 £m	**Costs incurred Year ended 31December 2011 £m**	Sales Period to 31 December 2010 £m	Costs incurred Period to 31December 2010 £m
Ultimate parent of the Group - SNCF	**5.9**	**95.9**	1 0	23 6
Fellow subsidiaries of SNCF	-	**16.2**	-	7 0
SNCB	-	**15.6**	-	7 3
	5.9	**127.7**	1 0	37 9

	Due from 2011 £m	**Due to 2011 £m**	Due from 2010 £m	Due to 2010 £m
Ultimate parent of the Group - SNCF				
due within one year	**25.1**	**25.3**	19 2	26 3
due between one and five years	-	-	7 9	13 9
due after more than five years	**27 3**	-	27 1	-
Fellow subsidiaries of SNCF due within one year	-	**7.7**	-	8 3
LCR				
due within one year	-	**12.5**	4 5	22 2
due between one and five years	-	-	32 4	-
SNCB due within one year	-	**6.3**	8 6	3 5
DfT		-		
due within one year	**0.5**	-	0 5	-
due between one and five years	**12.8**	-	12 8	-
due after more than five years	**25.5**	-	27 7	-
	91.2	**51.8**	140 7	74 2

In 2010, London & Continental Railways Ltd waived intercompany loans with EIL totalling £1 69bn LCR has discharged its guarantee with regards to the EIL pension and as such, there is no remaining guarantee at 31 December 2011 (2010 £47 2m)

Notes *(continued)*

26 Related parties *(continued)*

Company

Identity of related parties with which the Company has transacted

Related party	Relationship	Nature of transactions
Eurostar Express Ltd	Subsidiary	Lease of trainsets
Eurostar Group Ltd	Subsidiary	Non-trading
Eurostar International S A S	Subsidiary	Provision of seconded staff
Eurostar International S P R L	Subsidiary	Provision of seconded staff
European Passenger Services B V	Subsidiary	Lease of trainsets
SNCF	Parent	Provision of sales and distribution, maintenance, seconded staff, station occupancy, telecommunications and IT services Provision of leased trainsets
Avancial (Sysraildata)	Fellow subsidiary	Provision of IT services
Rail Europe 4A	Fellow subsidiary	Sales commission and provision of marketing services
Rail Europe Group Inc	Fellow subsidiary	Sales commission and provision of marketing services
Rail Solutions	Fellow subsidiary	Provision of IT services
VSC Technologies	Fellow subsidiary	Provision of IT services
Secretary of State for Transport on behalf of HM Government (DfT')	Other related party	Underwriting of finance lease obligations
London & Continental Railways Ltd	Other related party	Director services
SNCB	Other related party	Provision of sales and distribution, maintenance, seconded staff, station occupancy and leased trainsets

Related party transactions

	Sales Year ended 31 December 2011 £m	**Cost incurred Year ended 31 December 2011 £m**	Sales Period to 31 December 2010 £m	Cost incurred Period to 31 December 2010 £m
Ultimate parent of the Group	-	**80.5**	0 2	18 2
Fellow subsidiaries of SNCF	-	**16.2**	-	7 8
Subsidiary companies	-	**18.3**	-	6 4
SNCB	-	**13.6**	-	6 5
	-	**128.6**	0 2	38 9

Notes *(continued)*

26 Related parties *(continued)*

Related party transactions *(continued)*

	Due from 2011 £m	**Due to 2011 £m**	Due from 2010 £m	Due to 2010 £m
Ultimate parent of the Group				
due within one year	**23.2**	**23.9**	19 2	26 2
due between one and five years	-	-	7 9	13 9
due after more than five years	**27.3**	-	27 1	-
Subsidiaries due within one year	**16.6**	**6.6**	23 0	0 4
Fellow subsidiaries of SNCF due within one year	-	**7.7**	-	8 3
LCR				
due within one year	-	**12.5**	4 5	22 2
due between one and five years	-	-	36 4	-
SNCB	-	**5.6**	8 6	3 5
DfT		-		
due within one year	**0.5**	-	0 5	-
due between one and five years	**12.8**	-	12 8	-
due after more than five years	**25.5**	-	27 7	-
-				
	105.9	**56.3**	167 7	74 5

In 2010, London & Continental Railways Ltd waived intercompany loans with EIL totalling £1 69bn LCR has discharged its guarantee with regards to the EIL pension and as such, there is no remaining guarantee at 31 December 2011 (2010 £47 2m)

Key management personnel are considered to be the Directors of the Company and their remuneration is disclosed in the Directors' Report

27 Ultimate parent company and parent company of larger group

The company considers itself to be controlled by SNCF Voyages Developpement SAS, which is a subsidiary of SNCF, the ultimate parent company, and is incorporated in France The controlling party of SNCF is the French Government

28 Subsequent events

There were no material events subsequent to the balance sheet date