Registered Number 06275621

QW Rail Leasing Limited

Report and financial statements for the year ended 31 March 2011

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QW Rail Leasing Limited

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QW Rail Leasing Limited

Company information

Directors
Lawrence Butcher
James Duffy
William Ginn
Rolfe Lakin
Mark Rutherford
Antony Mitton
Bruce Stockwell
Peter Thodey
David Ward

Secretary
Petershill Secretaries Limited

Registered Office
10 - 18 Union Street
London
SE1 1SZ

Independent Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

QW Rail Leasing Limited

Directors' report
for the year ended 31 March 2011

The directors present their report together with the audited financial statements of the company for the year ended 31 March 2011

Principal activities
The company's principal activity is to purchase assets to lease them to its customers

The company is a limited liability company incorporated and domiciled in the United Kingdom (UK) and is a joint venture between SMBC Leasing (UK) Limited and National Australia Finance (Infrastructure Leasing No 2) Limited

The principal places of business are 88 Wood Street, London EC2V 7QQ and 99 Queen Victoria Street, London EC4V 4EH

Review of business and future developments
The company's principal operating lease is with Rail for London Limited ('RfL') for the provision of new Electrical Multiple Unit trains

The directors are pleased to report that as at 31 March 2011, the full fleet of 54 trains per the original agreement with RfL was delivered and operating well in passenger service (2010 41 trains) During the year, the company agreed to purchase and lease to RfL a further 3 trains, with delivery of those additional units scheduled for the latter part of 2011 At 31 March 2011, the company had incurred total expenditure (including capitalised fees and loan interest) of £275 7 million (2010 £243 6 million) on the construction of the trains, of which £258 6 million (2010 £169 1 million) is attributed to completed trains delivered for passenger service during the year The expenditure incurred on the construction of the trains has been financed by bank loans, some of which are with related parties

During the year, the company has generated a loss before taxation The expected cash flows from future profits and loan facilities in place will provide the funds necessary for the company to continue as a going concern in future periods The directors are satisfied with the performance and position of the company at the year end

Subsequent to the year end, further construction costs of £4 3 million are expected to be incurred in the construction of the additional 3 trains This further expenditure will be financed by drawing down additional funds under the existing loan facilities

Results and dividends
The statement of comprehensive income for the year is set out on page 8 The directors do not recommend the payment of a dividend (2010 £nil)

Directors' report
for the year ended 31 March 2011 (continued)

Principal risks and uncertainties
The directors regard the principal business risks as relating to the residual value of the trains and credit risk

Residual value risk
This risk is that at the end of the lease in June 2027, RfL will return the trains and no suitable new lessee can be found for them at a rent which will recoup the remaining investment in the fleet

This risk is minimised by expected increased future demand for rolling stock in the UK, the continued limited supply of suitable trains (and high cost and long lead times of building new ones), and the wide number of UK rail routes on which the trains could operate in the future

Credit risk
This risk is that RfL fails to pay the lease rentals when they fall due The risk is mitigated by the existence of a full rental guarantee from Transport for London, RfL's parent and a UK statutory body with a AA+ credit rating

The financial risk management of the company is detailed in note 2 of the financial statements

Key performance indicators
During the year, whilst the majority of the trains were delivered for passenger service, there still remained some trains in the course of construction Therefore the company's directors are of the opinion that analysis using KPIs is not appropriate for an understanding of the performance of the business The directors are satisfied that progress and financial performance is in line with latest business forecasts

Directors
The directors who held office during the year and up to the date of signing these financial statements are as follows

Lawrence Butcher
James Duffy
William Ginn
Rolfe Lakin
Mark Rutherford
Antony Mitton
Akira Monno (resigned 3 November 2010)
Bruce Stockwell
Paul Rayner (resigned 14 July 2011)
Peter Thodey
David Ward (appointed 3 November 2010)

In accordance with the Articles of Association, none of the directors is required to retire by rotation

QW Rail Leasing Limited

Directors' report
for the year ended 31 March 2011 (continued)

Directors' liability
The directors of the company are insured against personal liabilities which may arise in the course of the performance of their duties National Australia Bank Limited and SMBC Leasing and Finance, Inc pay a premium for a contract insuring their respective directors and officers, including those of their subsidiaries and associated entities

Auditors and disclosure of information to auditors
So far as each director is aware at the time this report is approved, there is no relevant audit information of which the company's auditors are unaware Relevant information is defined as information needed by the company's auditors in connection with preparing their report Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

In accordance with section 487 of the Companies Act 2006 Ernst & Young LLP will be deemed to be reappointed as auditors of the Company when the end of the next accounting period for appointing auditors expires

By order of the Board

M J. Rutherford

Mark Rutherford
Director

Date 23 SEPTEMBER 2011

QW Rail Leasing Limited

Statement of directors' responsibilities for the year ended 31 March 2011

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the company and the financial performance and cash flows of the company for that period In preparing those company financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance, and
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the company financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

QW Rail Leasing Limited

Independent auditor's report to the members of QW Rail Leasing Limited

We have audited the financial statements of QW Rail Leasing Limited for the year ended 31 March 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flow, the Statement of Changes in Equity and the related notes 1 to 18 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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 auditors' 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

QW Rail Leasing Limited

Independent auditor's report to the members of QW Rail Leasing Limited (continued)

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Javier Faiz
(Senior statutory auditor)
For and on behalf of
Ernst & Young LLP, Statutory Auditor
London

Date 23 SEPTEMBER 2011

QW Rail Leasing Limited

Statement of comprehensive income for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Continuing operations			
Revenue - Lease income	3	**9,086**	(503)
Depreciation	9	**(6,576)**	(1,092)
Finance costs	7	**(7,206)**	(1,023)
Finance income	7	**4**	1
Other expenses		**(351)**	(1,250)
Loss before taxation	4	**(5,043)**	(3,867)
Income tax credit	8	**2,542**	1,112
Loss for the year and total comprehensive loss		**(2,501)**	(2,755)

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

	Share capital	Retained earnings	Total shareholders' deficit
	£'000	**£'000**	**£'000**
Balance at 1 April 2010	100	(8,449)	(8,349)
Loss for the year attributable to non-controlling interests	-	(2,501)	(2,501)
Balance at 31 March 2011	**100**	**(10,950)**	**(10,850)**

QW Rail Leasing Limited

Registered Number 06275621

Statement of financial position as at 31 March 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**267,997**	242,458
Current assets			
Trade and other receivables	10	**2,638**	4,270
Cash and cash equivalents	11	**588**	237
		3,226	4,507
Total assets		**271,223**	246,965
Liabilities			
Current liabilities			
Trade and other payables	12	**(17,626)**	(20,233)
Non-current liabilities			
Borrowings	13	**(248,418)**	(223,134)
Deferred tax liability	14	**(16,029)**	(11,947)
		(264,447)	(235,081)
Total liabilities		**(282,073)**	(255,314)
Net liabilities		**(10,850)**	(8,349)
Equity			
Capital and reserves attributable to equity holders of the company			
Ordinary shares	15	**100**	100
Retained earnings		**(10,950)**	(8,449)
Total shareholders' deficit		**(10,850)**	(8,349)

The financial statements on pages 8 to 22 were approved by the board of directors on 23 SEPTEMBER 2011 and were signed on its behalf by

M. J. Rutherford

Mark Rutherford
Director

James Duffy
Director

QW Rail Leasing Limited

Statement of cash flow
for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash received from customers		**9,918**	3,088
Cash paid to suppliers		**(583)**	(940)
Interest received		**4**	1
Interest paid on borrowings		**(8,348)**	(5,567)
Receipt of consortium relief and working capital loan from shareholders		**12,345**	10,820
Net receipt of VAT		**849**	216
Net cash generated from operating activities		**14,185**	7,618
Cash flows from investing activities			
Purchase of property, plant and equipment		**(39,118)**	(100,975)
Net cash used in investing activities		**(39,118)**	(100,975)
Cash flows from financing activities			
Net proceeds from borrowings		**25,284**	93,286
Net cash generated from financing activities		**25,284**	93,286
Net increase / (decrease) in cash and cash equivalents		**351**	(71)
Cash and cash equivalents at beginning of year		**237**	308
Cash and cash equivalents at end of year	11	**588**	237

QW Rail Leasing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

1 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, and under the historical cost convention

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the company's accounting policies

(a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company

- IAS 24 (amendment) "Related party disclosure" (effective from January 2011) The amendment is still subject to endorsement by the EU The International Accounting Standards Board ("IASB") revised IAS 24 in 2009 The main changes relate to

  (a) the simplification and clarification of the definition of a related party

  (b) providing a partial exemption from the disclosure requirements for government-related entities

- IFRS 7 (amendment) "Financial instruments disclosures – nature and extent of risks" (effective from January 2011) The amendments will improve the understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets

- IFRS 7 (amendment) "Financial instruments disclosures – disclosures on transfers of financial assets" (effective from July 2011) The amendment is still subject to endorsement by the EU The IASB issued the amendment to IFRS 7 in October 2010 The main disclosures required are

  (a) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising on the use of the transferred assets, and

  (b) when the counterparty to the associated liabilities has recourse only to the transferred assets, details of the fair value of the transferred assets, associated liabilities and the net position should be disclosed

1 Principal accounting policies (continued)

- IFRIC 9 (new standard) "Financial instruments - classification and measurement" (effective 1 January 2013) IFRS 9 will retain the classification and measurement requirements of IAS 39 for financial liabilities, except that the effects of changes in the credit risk of liabilities designated under the fair value option would not affect profit or loss Changes in fair value due to an entity's own credit risk will be recognised as a component of 'other comprehensive income'

- IFRIC 19 "Extinguishing financial liabilities with equity instruments" (effective from July 2010) IFRIC 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor IFRIC 19 requires a gain or loss to be recognised in profit or loss in the statement of comprehensive income when a liability is settled through the issuance of the entity's own equity instruments

Going concern
The financial statements have been prepared on a going concern basis The expected cash flows from future profits and loan facilities in place will provide the funds necessary for the company to continue as a going concern in future periods

Leases
Operating leases
Assets leased to customers under contracts which do not transfer substantially all the risks and rewards of ownership are classified as operating leases

Assets leased to customers under operating leases are capitalised in accordance with the policy on property, plant and equipment Operating lease income is accounted for on a straight line basis over the term of the lease commencing from the date of delivery of the asset to the lessee Any rental increases or decreases arising from changes in underlying interest rates are recognised during the period to which they relate

Finance leases
Assets leased to customers under contracts which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases

Assets leased to customers under finance leases are deemed to be sold at normal selling value which is taken to income at the inception of the lease Debtors under finance leases represent outstanding amounts due under these agreements less finance charges allocated to future periods Finance lease income is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investments

Notes to the financial statements for the year ended 31 March 2011 (continued)

1 Principal accounting policies (continued)

Property, plant and equipment
Property, plant and equipment represents assets that are purchased and subsequently leased to a third party under an operating lease agreement Assets are stated at historical cost less accumulated depreciation and any provisions for impairment Historical costs include expenditure that is directly attributable to the acquisition of the asset and the set up of the lease

Rolling stock assets are depreciated over their useful economic life on a straight line basis commencing from the date of the delivery of each asset to the lessee Depreciation on rolling stock assets is calculated on the gross cost (which includes related capitalised interest costs) less the estimated residual value at the end of their useful economic life Capitalised fees in connection with the set up of the operating lease to RfL are depreciated over the life of the lease

Borrowings
Borrowings are recognised at fair value net of any transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method The interest costs on borrowings relating to the operations of the company have been charged to the income statement under the effective interest rate method Interest costs on borrowings directly attributable to the construction of the trains is capitalised

Current and deferred income tax
The tax expense for the period comprises current and deferred tax Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity In this case the tax is also recognised in other comprehensive income or directly in equity, respectively

The current tax charge is calculated on the taxable income for the period and on the basis of the tax laws enacted or substantively enacted at 31 March 2011

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by 31 March 2011 and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment

Notes to the financial statements for the year ended 31 March 2011 (continued)

1 Principal accounting policies (continued)

Trade and other payables
Trade and other payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method

Cash and cash equivalents
Cash and cash equivalents include cash in hand and at bank

Share capital
Ordinary shares are classified as equity

2 Financial risk management

Interest rate risk
The company's exposure to the risk of changes in interest rates relates primarily to the company's borrowings which bear interest at floating rates Any fluctuations in interest rates on the company's borrowings are passed to RfL through rental adjustments under the lease

Liquidity risk
Liquidity risk is the risk that the company is unable to meet its current and future financial obligations as they fall due at an acceptable cost The directors do not believe that there is a significant exposure to liquidity risk as all principal funding lines are committed for at least the full duration of the lease to RfL (see note 13)

Credit risk
Credit risk is the potential that a lessee or counterparty will fail to meet its obligations in accordance with agreed terms Having reviewed the company's lease arrangements and customer profile, the directors consider the risk to be minimal

3 Lease income

Lease income represents rental income receivable under operating lease contracts and finance lease interest Income is recognised in accordance with the policy stated for leases in note 1 Any rental increases or decreases arising from changes in underlying interest rates are recognised during the period to which they relate

During the year, net lease income amounted to £9,086,000 (2010 negative net lease income of £503,000) Underlying interest rates continue to affect rentals receivable under the principal operating lease, and in the previous year based on the lower number of trains in operation, this resulted in net negative income

4 Loss before taxation

Loss before taxation has been stated after charging

	2011 £'000	2010 £'000
Audit services		
Fees payable to company auditor for the audit of the company	**11**	11
Depreciation	**6,576**	1,092

5 Employees

The company had no employees during the year (2010 none)

6 Directors' emoluments

The directors did not receive any remuneration for their services to the company during the year (2010 £nil)

7 Finance costs and income

	2011 £'000	2010 £'000
Finance costs		
Interest payable on related party loans (note 17)	**(2,599)**	(1,972)
Interest payable on bank loan	**(6,116)**	(4,003)
Less capitalised borrowing costs (note 9)	**1,509**	4,952
	(7,206)	(1,023)
Finance income		
Interest receivable on short-term bank deposits	**4**	1
Net finance costs	**(7,202)**	(1,022)

8 Income tax credit

	2011 £'000	2010 £'000
Current income tax		
UK corporation tax – consortium relief receivable	**6,624**	4,759
Total current income tax credit	**6,624**	4,759
Deferred income tax		
Origination and reversal of timing differences	**(4,082)**	(3,677)
Adjustments in respect of prior periods	**-**	30
Total deferred income tax charge (note 14)	**(4,082)**	(3,647)
Total income tax credit	**2,542**	1,112

The tax assessed for the year is lower (2010 lower) than the standard rate of corporation tax in the UK (28%) The differences are explained below

	2011 £'000	2010 £'000
Loss before taxation	**5,043**	3,867
Loss multiplied by the standard rate of corporation taxation in the UK 28% (2010 28%)	**1,412**	1,082
Adjustment in respect of prior periods	**-**	30
Expenses not deductable for tax purposes	**(5)**	-
Changes in tax rate	**(98)**	-
Rate adjustment for deferred taxation	**1,233**	-
Total income tax credit	**2,542**	1,112

Factors that may affect future tax charges
A number of factors may impact the future tax charge including further changes to the enacted tax rate, the timing of the origination and reversal of short term timing differences, and the amount of any costs which do not qualify for tax deductions

On 22 June 2010 the government announced its intention to reduce the main rate of UK corporation tax from 28% to 27% with effect from 1 April 2011, with further annual reductions of 1% each year culminating in a rate of 24% on 1 April 2014 On 23 March 2011 the government announced its intention to reduce the 27% rate to 26% with effect from 1 April 2011, with further annual reductions culminating in a rate of 23% on 1 April 2014

Deferred income tax within these financial statements is stated at 26%, being the enacted rate as at 31 March 2011 Any changes to future corporation tax rates will only affect future tax charges when those changes have been substantively enacted

Notes to the financial statements for the year ended 31 March 2011 (continued)

9 Property, plant and equipment

	Rail rolling stock		
	Completed trains	In course of construction	Total
	£'000	£'000	£'000
Cost			
At 1 April 2010	169,113	74,437	243,550
Additions	-	32,115	32,115
Transfer	89,500	(89,500)	-
At 31 March 2011	**258,613**	**17,052**	**275,665**
Depreciation			
At 1 April 2010	1,092	-	1,092
Charge for the year	6,576	-	6,576
At 31 March 2011	**7,668**	**-**	**7,668**
Net book value			
At 31 March 2011	**250,945**	**17,052**	**267,997**
At 31 March 2010	168,021	74,437	242,458

Rail rolling stock represents expenditure incurred on the construction of new Electrical Multiple Unit trains for use on the London Overground network The company's principal operating lease with Rail for London Limited ('RfL') for the lease of these trains runs until June 2027

As at 31 March 2011 the full fleet of 54 trains per the original agreement with RfL was operating in passenger service (2010 41 trains) During the year, the company agreed to purchase and lease to RfL a further 3 trains which the directors expect to be in passenger service during the latter part of 2011 The total construction cost, excluding capitalised fees and borrowing costs of the full fleet of 57 trains, is expected to be £270 million

IAS23 (revised) "Borrowing costs" requires entities to capitalise borrowing costs directly attributable to the construction of qualifying assets Included in additions during the year is an amount of £1,509,000 (2010 £4,952,000) representing capitalised borrowing costs (see note 7)

Depreciation of the trains commences upon date of delivery

9 Property, plant and equipment (continued)

The future minimum rental payments receivable under non-cancellable operating leases are as follows

	2011 £'000	2010 £'000
Not later than one year	**15,553**	14,729
Between two and five years	**64,768**	78,597
Later than five years	**182,160**	176,843
	262,481	270,169

10 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	**2**	850
Consortium relief receivable (note 17)	**2,636**	3,410
Receivables under finance leases	**-**	10
	2,638	4,270

No trade receivables were overdue as at 31 March 2011 (2010 £nil)

There are no contingent rents recognised in income

Unguaranteed residual values accruing to the benefit of the lessor is estimated not to be material

11 Cash and cash equivalents

	2011 £'000	2010 £'000
Cash at bank and in hand	**588**	237

12 Trade and other payables

	2011	2010
	£'000	£'000
Trade payables	28	8,535
Amounts owed to related party (note 17)	10,484	5,538
Accruals and deferred income	7,114	6,160
	17,626	20,233

13 Borrowings

	2011	2010
	£'000	£'000
Non-current		
Amounts owed to related parties		
- National Australia Bank, London Branch	59,209	57,067
- Sumitomo Mitsui Banking Corporation Europe Limited	59,209	57,067
Amounts owed to European Investment Bank	130,000	109,000
Total borrowings	248,418	223,134

The joint funding agreement between National Australia Bank, London Branch and Sumitomo Mitsui Banking Corporation Europe Limited and the company provides for a credit facility of £160,000,000 which is made available to the company until 14 August 2044 The facility allows the company to draw down funding as required Repayment dates are at the end of each three month interest period with the right to redraw up to the amount of the facility immediately Interest is charged at commercial variable rates

The funding agreement between the company and European Investment Bank provides for a credit facility of £130,000,000 which is made available to the company until 14 April 2027 Interest under this facility is charged at a fixed rate Repayments of this facility commence on 14 October 2011 with the final repayment scheduled to occur on 14 April 2027

The carrying value of the borrowings is assumed to approximate their fair values on the basis that these borrowings are arranged at current commercial interest rates

All borrowings are denominated in sterling

Sumitomo Mitsui Banking Corporation Europe Limited, as trustee for all of the above lenders has a charge over the company's leased assets which include, inter alia, all accepted new trains

14 Deferred income tax

Deferred income tax is calculated in full on the temporary differences under the liability method using the tax rate of 26% (2010 28%) The deferred income tax liability to be recovered after more than one year is as follows

	2011	2010
	£'000	£'000
At 1 April	**11,947**	8,300
Charged to the income statement (note 8)	**4,082**	3,647
At 31 March	**16,029**	11,947

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

Deferred tax liabilities	**Accelerated tax depreciation**	**Capitalised interest**	**Total**
	£000	**£'000**	**£'000**
At 1 April 2010	19,545	1,382	20,927
Charged to the income statement	7,146	261	7,407
At 31 March 2011	**26,691**	**1,643**	**28,334**

Deferred tax assets	**Tax losses**	**Other**	**Total**
	£000	**£000**	**£'000**
At 1 April 2010	(8,956)	(24)	(8,980)
Charged to the income statement	(3,324)	(1)	(3,325)
At 31 March 2011	**(12,280)**	**(25)**	**(12,305)**

Net deferred tax liability			
At 31 March 2011	**14,411**	**1,618**	**16,029**
At 31 March 2010	10,589	1,358	11,947

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profit is probable

Notes to the financial statements for the year ended 31 March 2011 (continued)

15 Share capital

	2011	2010
	£'000	£'000
Authorised		
100,000 Ordinary shares of £1 each	**100**	100
Allotted and fully paid		
100,000 Ordinary shares of £1 each	**100**	100

16 Commitments

Capital expenditure contracted for at 31 March 2011 but not incurred is as follows

	2011	2010
	£'000	£'000
Rail rolling stock	**4,321**	20,044

The company has received and paid invoices totalling £0 8 million (2010 £19 1 million) since 31 March 2011 relating to the above commitments

17 Related party transactions

The company has several related parties which are fellow group undertakings of its two shareholders with whom it has entered into transactions as listed below

Fellow group undertaking of SMBC Leasing (UK) Limited
Sumitomo Mitsui Banking Corporation Europe Limited
SMBC Leasing and Finance, Inc , London Branch

Fellow group undertakings of National Australia Finance (Infrastructure Leasing No 2) Limited
National Australia Bank, London Branch

Loan arrangements and transactions with related parties include the following

(i) Loans

Loans advanced to the company by National Australia Bank, London Branch and Sumitomo Mitsui Banking Corporation Europe Limited are detailed in note 13 Finance costs include £2,599,000 (2010 £1,972,000) of interest payable to these two related parties in equal proportions

(ii) Consortium relief and working capital loans

Consortium relief receivable by the company from the surrender of its losses to its shareholders amounted to £6,624,000 (2010 £4,759,000) At 31 March 2011, amounts owed by/(to) the shareholders (and for their affiliates) in respect of consortium relief and working capital loans were as follows

	2011	2010
	£'000	£'000
SMBC Leasing (UK) Limited and SMBC Leasing and Finance, Inc , London Branch	**(10,484)**	(5,538)
National Australia Finance (Infrastructure Leasing No 2) Limited	**2,636**	3,410

Amounts owed to shareholders (and for their affiliates) are interest free and repayable on demand

18 Ultimate parent undertaking

The company is a joint venture between SMBC Leasing (UK) Limited and National Australia Finance (Infrastructure Leasing No 2) Limited Neither of these entities has sole control of the company and so it has no ultimate parent undertaking