3007939

# THE CHILTERN RAILWAY COMPANY LIMITED

## Annual report and financial statements

## for the year ended 31 December 2011

THE CHILTERN RAILWAY COMPANY LIMITED

## Company Information

| | |
|---|---|
| **Directors** | A D Allen<br>G P Cross<br>C M Marjoribanks<br>T M Ableman<br>I S Baxter<br>S J Murphy<br>R W Brighouse<br>A Furlong<br>R W Holland |
| **Company secretary** | W G R Davies |
| **Company number** | 3007939 |
| **Registered office** | Great Central House, Marylebone Station<br>Melcombe Place<br>London<br>NW1 6JJ |
| **Independent auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>89 Sandyford Road<br>Newcastle upon Tyne<br>NE1 8HW |

# Contents

# Directors' report
## for the year ended 31 December 2011

The directors present their report and the financial statements for the year ended 31 December 2011

### Principal activities

The Chiltern Railway Company Limited is a wholly owned subsidiary of M40 Trains Limited

The principal activity of the company is the operation of passenger railway services primarily between towns in the M40 corridor and London Marylebone and between Aylesbury and London Marylebone

There have not been any significant changes in the company's principal activities in the period under review The directors are not aware at the date of this report, of any major changes in the company's activities expected in the next year

### Business review

The company's profit and loss account on page 7 shows a loss on ordinary activities before taxation of £57 8m compared to a loss in 2010 of £17 0m This is mainly due to impairment charges, relating to the tangible fixed assets, of £34 7m in the period (2010 £18 6m) The impairment charge has been measured by comparing the carrying value of the fixed assets in the income generating unit with the higher of the assets net realisable value and discounted future cash flows (in order to estimate the value in use) A pre-tax, nominal discount rate of 10 2% has been applied to the forecast future cash-flows

The turnover for the year showed significant growth but not as much as forecast The forecast growth was adversely impacted by weekend construction work for Project Evergreen 3, including two full blockades of the line The new enhanced timetable was introduced on 5 September 2011 The company suffered a significant shortfall against budget in passenger income due to the severe disruption to its weekend services, as well as much lower levels of GDP growth and the depressed state of the economy

The company's underlying performance showed a growth in passenger income of 7 2% over the previous year after adjusting for the 52 week period in 2011 compared to a 51 week period in 2010

The balance sheet on page 9 shows that the company's financial position at the period end reflects a net deficit of £67 5m (2010 net deficit of £11 8m) This takes account of the actuarial loss of £9 1m on the pension scheme and the net loss after tax of £46 6m The cash position has decreased by £7 3m on the previous period

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of DB Mobility Logistics AG (an intermediate parent company, which is a wholly owned subsidiary of Deutsche Bahn AG) The directors have received confirmation that DB Mobility Logistics AG intends to support the company for at least one year after these financial statements are signed

### Results and dividends

The loss for the year, after taxation, amounted to £46,611,000 (2010 - loss £16,475,000)

The directors did not recommend the payment of any dividends during the year (2010 £NIL)

# Directors' report
# for the year ended 31 December 2011

**Directors**

The directors who served during the year and up to the date of signing the financial statements were

A Shooter (resigned 19 December 2011)
A D Allen
G P Cross
C M Marjoribanks
T M Ableman
I S Baxter
S J Murphy
R W Brighouse (appointed 16 May 2011)
K E A Doughty (resigned 23 August 2011)
A Furlong (appointed 1 January 2012)
R W Holland (appointed 1 January 2012)

**Principal risks and uncertainties**

The general uncertainty and lack of confidence in the UK economy, linked to a high proportion of the cost base being fixed and competitive pressures could undermine the company's future profitability

**Key Performance indicators**

Passenger income growth of 7 2% (2010 4 6%) This was after adjusting for the 52 week period in 2011 compared to a 51 week period in 2010

Public Performance Measurement was 92 8% (2010 94 2%) The Public Performance Measure is a national indicator of the percentage of trains arriving at their destination within 5 minutes of scheduled time The national average is 91 1% (2010 90 7 %) Customer Satisfaction Rating was 88% (2010 90%) The Customer Satisfaction rating is another national performance indicator conducted independently The average nationally for train operating companies was 84% (2010 84%)

**Future development**

Following Project "Evergreen 1" in 2002 which re-instated double track on the Chiltern main line between Aynho and Bicester and "Evergreen 2" in 2006 which improved line capacity between London and Bicester, including extra platforms at Marylebone Station, "Evergreen 3" was agreed on 15 January 2010

The Department of Transport ("DFT"), Chiltern Railways and Network Rail agreed to a £273m upgrade of the Chiltern main line This consists of two phases The first phase which started in January 2010 is to deliver faster train services from Birmingham to London Marylebone These included upgrades to track, a new platform at Bicester North, new cross-overs at three locations and a new two-track railway through South Ruislip The second phase constitutes the upgrade of the existing line between Bicester and Oxford and the creation of a new link between the Chiltern line and the Bicester to Oxford line This will include the reconstruction of station at Bicester Town, and the creation of a new station at Water Eaton Parkway This is scheduled for completion by 2014

**Future development (continued)**

The first phase of the project was fully commissioned and accepted into service by Network Rail in December 2011 The company has received claims from its principal contractor, BAM Nuttall, for Phase 1 amounting to £50m These claims have failed to be substantiated and are therefore repudiated by the company The company's advising lawyers support this position Following the legal advice received and the directors' assessment of the validity of the claims, no provision has been deemed necessary within the financial statements Furthermore the directors consider that there are potential counter claims for liquidated damages and other contractual claims against BAM by the company to recover incremental costs incurred

A Transport and Works Act order for the second phase is expected to be made this summer The second phase of the project may alter in design dependant on Government proposals for the new East-West rail link

**Impairment**

Lower sales growth due to lowering economic forecasts and the planned delay in Evergreen 3 triggered Chiltern's management to examine the carrying value of its assets against their recoverable amount (which is the higher of net realisable value and forecasted future discounted cash flows to the end of the franchise, in 2021) As a result an impairment charge of £34 7m (2010 £18 6m) against tangible and intangible assets has been recognised The pre-tax weighted average cost of capital used in these calculations is 10 2%

**Financial risk management**

Competitive pressure is a continuing risk for the company The company manages this risk by providing value added services to its passengers It maintains strong relationships with its customers and has a programme of continuous improvement and innovation in its service provision This is supported by investments on trains and enhanced car parking capacity, along with significant investment in marketing support activities

**Price risk**

Fare changes are a mix of regulated (linked to RPI) and unregulated fares Pay awards are linked to RPI

The company is also exposed to fluctuations in fuel prices In order to mitigate this risk the company enters into forward contracts to hedge its position

**Liquidity risk**

DB Mobility Logistics AG provides all of the DB Regio UK group's (which comprises of The Chiltern Railway Company Limited, DB Regio Tyne and Wear Limited, M40 Trains Limited, and DB Regio UK Limited) funding facilities This includes funding for projects working capital, capital expenditure and any trading losses

DB Mobility Logistics AG also acts as financial guarantor on all performance and liquidity bonds to the DfT Liquidity risk is managed within the business via regular working capital and cash flow analysis, which is reviewed at board level

As noted above there is a potential exposure to claims against the company relating to the Evergreen 3 project However, the company fully reject the validity of these claims

**Company's policy for payment of creditors**

It is the company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them Trade creditors at the period end amount to 38 (2010 29) days of average supplies for the period

# Directors' report
## for the year ended 31 December 2011

**Employee involvement**

The company recognises that its employees are key to its success and is committed to creating a working environment where everyone has the opportunity to learn, develop and contribute to the success of the company, working within a common set of values

The company continues to aim to be an employer of choice and to employ a diverse workforce with the skills, abilities and attitudes to meet business objectives and needs The company's aim is to provide appropriate remuneration, benefits and conditions of employment which will serve to attract, retain, motivate and reward such employees

The company has, subject to the restraints of commercial confidentiality, continued its policy of employee involvement, by making information available to employees on a regular basis regarding recent and probable future developments and business activities

**Going concern**

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of DB Mobility Logistics AG (an intermediate parent company, which is a wholly owned subsidiary of Deutsche Bahn AG) The directors have received confirmation that DB Mobility Logistics AG intends to support the company for at least one year after these financial statements are signed

**Statement of directors' responsibilities**

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 financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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

# Directors' report
## for the year ended 31 December 2011

**Provision of information to auditors**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

This report was approved by the board on 26 April 2012 and signed on its behalf

**A Furlong**
Director

# Independent auditors' report to the members of The Chiltern Railway Company Limited

We have audited the financial statements of The Chiltern Railway Company Limited for the year ended 31 December 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

**Respective responsibilities of directors and auditors**

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

**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 Directors' report 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 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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

## Independent auditors' report to the members of The Chiltern Railway Company Limited

**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

Bill MacLeod

Bill MacLeod (Senior statutory auditor)

for and on behalf of
**PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

27 April 2012

# Profit and loss account
## for the year ended 31 December 2011

| | Note | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|---|
| **TURNOVER** | 1,2 | **128,812** | 123,080 |
| Cost of sales | | **(126,727)** | (106,809) |
| **GROSS PROFIT** | | **2,085** | 16,271 |
| Administrative expenses | | **(14,382)** | (12,632) |
| Other operating income | 3 | **66,718** | 56,041 |
| Other operating expenses | 4 | **(76,868)** | (57,418) |
| | 4 | **(22,447)** | 2,262 |
| **EXCEPTIONAL ITEMS** | | | |
| Impairment of tangible fixed assets | 12 | **(34,700)** | (18,076) |
| Impairment of intangible fixed assets | 12 | - | (567) |
| **OPERATING (LOSS)/PROFIT** | | **(57,147)** | (16,381) |
| Interest receivable and similar income | 8 | **1,874** | 1,564 |
| Interest payable and similar charges | 9 | **(2,573)** | (2,155) |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | | **(57,846)** | (16,972) |
| Tax on loss on ordinary activities | 10 | **11,235** | 497 |
| **LOSS FOR THE FINANCIAL YEAR** | 19 | **(46,611)** | (16,475) |

All amounts relate to continuing operations

There is no material difference between the results stated in the profit and loss account and their historical cost equivalents

The notes on pages 11 to 30 form part of these financial statements

## Statement of total recognised gains and losses for the year ended 31 December 2011

| | Note | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|---|
| **LOSS FOR THE FINANCIAL YEAR** | | **(46,611)** | (16,475) |
| Deferred tax attributable to actuarial loss | 23 | **3,214** | - |
| Actuarial loss on pension schemes | 23 | **(12,300)** | (2,100) |
| **TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR** | | **(55,697)** | (18,575) |

The notes on pages 11 to 30 form part of these financial statements

THE CHILTERN RAILWAY COMPANY LIMITED
**Registered number: 3007939**

# Balance sheet
## as at 31 December 2011

| | Note | £000 | 2011 £000 | £000 | 2010 £000 |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Intangible assets | 11 | | - | | - |
| Tangible assets | 12 | | 17,261 | | 41,205 |
| | | | 17,261 | | 41,205 |
| **CURRENT ASSETS** | | | | | |
| Stocks | 13 | 2,567 | | 2,506 | |
| Debtors | 14 | 43,942 | | 35,263 | |
| Cash at bank and in hand | | 974 | | 8,243 | |
| | | 47,483 | | 46,012 | |
| **CREDITORS:** amounts falling due within one year | 15 | (56,158) | | (45,292) | |
| **NET CURRENT (LIABILITIES)/ASSETS** | | | (8,675) | | 720 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | 8,586 | | 41,925 |
| **CREDITORS:** amounts falling due after more than one year | 16 | | (71,586) | | (58,853) |
| **PROVISIONS FOR LIABILITIES** | | | | | |
| Net pension (deficit)/surplus | | | (4,525) | | 5,100 |
| **NET LIABILITIES** | | | (67,525) | | (11,828) |
| **CAPITAL AND RESERVES** | | | | | |
| Called up share capital | 18 | | 2,150 | | 2,150 |
| Profit and loss account | 19 | | (69,675) | | (13,978) |
| **SHAREHOLDERS' DEFICIT** | 20 | | (67,525) | | (11,828) |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 April 2012

**A Furlong**
Director

The notes on pages 11 to 30 form part of these financial statements

# Notes to the financial statements for the year ended 31 December 2011

## 1. ACCOUNTING POLICIES

### 1 1 Basis of preparation of financial statements

The financial statements are prepared on the going concern basis under the historical cost convention, and in accordance with The Companies Act 2006 and applicable accounting standards in the United Kingdom A summary of the principal accounting policies adopted by the directors, is shown below The accounting policies have been applied consistently other than where it has been disclosed that other policies have been adopted

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of DB Mobility Logistics AG (an intermediate parent company, which is a wholly owned subsidiary of Deutsche Bahn AG) The directors have received confirmation that DB Mobility Logistics AG intend to support the company for at least one year after these financial statements are signed

### 1.2 Cash flow

The company is a wholly-owned subsidiary of Deutsche Bahn AG and is included in the consolidated financial statements of Deutsche Bahn AG, which are publicly available Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1

### 1.3 Turnover

Turnover is the amount receivable relating to the period by the company for goods supplied and services provided, excluding Value Added Tax and trade discounts All turnover is derived in the United Kingdom Any amounts received not relating to the period are deferred and released within the period they relate to Income is accrued for any services provided and not yet billed

Turnover reflects the following

(i) Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited principally in respect of passenger receipts, based on detailed surveys of passenger flows The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket

(ii) Revenue in UK Rail includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise revenue support arrangements Franchise premium payments to the DfT for amounts due under the terms of a franchise are included within cost of sales

(iii) Income is also derived from car park income, catering, commissions, compensation from projects and other services and is recognised in the profit and loss account upon completion of the service

### 1.4 Intangible fixed assets and amortisation

Intangible assets are held at cost net of impairment charges and amortised over the remaining life of the franchise At 31 December 2011, these assets were fully impaired

## 1. ACCOUNTING POLICIES (continued)

### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

| | | |
|---|---|---|
| Leasehold improvements | - | straight line between 5 and 50 years |
| Plant and equipment | - | straight line between 3 and 40 years |

Freehold land is not depreciated

Infrastructure improvements under construction are not depreciated until commissioned

Impairment charges have been incurred on tangible fixed assets in the current year and prior year

The impairment charge has been measured by comparing the carrying value of the fixed assets in the income generating unit with the higher of the assets net realisable value and discounted future cash flows (in order to estimate the value in use) A pre-tax, nominal discount rate of 10 2% has been applied to the forecast future cash-flows

Management have projected the cash-flows to the end of the franchise in 2021 Management have used their latest budget which sets out a detailed plan for the years 2012 to 2016 as a basis for the cash-flow projections A constant growth rate of 6 0% has then been applied to revenues for the period 2016 to 2021 This figure has been derived by means of analysing forecast economic growth and inflation, along with the past performance of the company relative to these measures Operating costs have been projected to increase at the forecast rate of 4% to support the revenue line and at the rate of inflation for all other costs

As a result of managements assessment, the recoverable amount for the purposes of the impairment calculations was deemed to be the net realisable amount of the assets In estimating the net realisable amount, the directors believe there is no material difference between the book value and the market value of the freehold land

### 1.6 Operating leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives The capital elements of the future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account over the lease term

### 1.7 Stocks

Stock is stated at the lower of cost and net realisable value on a FIFO basis In determining the cost of raw materials, consumables and goods purchased for resale, the historical cost is used

## Notes to the financial statements
## for the year ended 31 December 2011

1. **ACCOUNTING POLICIES (continued)**

### 1.8 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

## 1. ACCOUNTING POLICIES (continued)

### 1.9 Pensions

Defined benefit schemes The company operates a defined benefit scheme providing benefits based on final pensionable pay under the term of the franchise agreement The company became the relevant train operating company in 2002 as designated employer of The Chiltern Railway Company Limited section and The Chiltern Railway Company Limited (Maintenance) section of the Railways Pension Scheme ("RPS") and must make contributions during the franchise term to both sections in accordance with the contribution schedule agreed between the company and the Trustees

On transfer of a franchise, the only obligation of the franchisee is to have paid the required contributions during the franchise period Therefore, the surplus or deficit in the section existing at the end of the franchise is taken on by the subsequent franchisee As the franchisee has no obligation in relation to pension contributions after the expiry date of the of the franchise, only the proportion of the deficit expected to be funded by the franchisee over the franchise term is recognised on commencement of the franchise and at subsequent balance sheet dates At the commencement of the company's franchise, a surplus was recognised

The company has no rights or obligations in respect of the sections of the RPS pension scheme following expiry of the current franchise Therefore the pension deficit (or surplus) recognised for relevant sections of the RPS only represents that part of the net deficit (or surplus) of each section that the company is obliged to fund (or expected to recover) over the life of the franchise to which the section relates Where the surplus is fully recoverable over the life of the franchise, no restriction to surplus is made

The company accounts for the defined benefit schemes in accordance with FRS17 "Retirement Benefits" The obligations are measured at discounted present value whilst plan assets are recorded at market value The operating costs of such plans are included within operating profit and the financing costs are included in finance income, service costs are spread systematically over the lives of the employees and financing costs are recognised in the periods in which they arise Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

A full actuarial valuation is undertaken triennially for the RPS with the surplus/deficit being updated annually by independent actuaries using the projected unit credit method The nature of the agreement means that the Company will not be responsible for funding any deficit remaining within the Scheme at the end of the franchise period, nor will the company receive any benefit from any surplus existing at the end of the franchise period As such, the deficit (surplus) within the Scheme in each year has been calculated as the amount that expected future company contributions exceed (fall short of) expected future company service costs over the expected period of the franchise

When the conditions relating to the award of a franchise require the company to assume legal responsibility for any pension deficit or surplus that exists at that point in time, the company recognises an asset or liability representing the fair value of the related pension deficit or surplus that the company expects to fund during the franchise period When a pension surplus exists at the start of the franchise as a result of being able to reduce future contributions to the scheme, a corresponding liability (classified within accruals) is recognised

Defined contribution scheme The company commenced operating a defined contribution scheme in 2003 The cost of a defined contribution scheme is equal to the contributions payable to the scheme for the accounting period The cost is recognised within operating profit in the profit and loss account

Further information on pension arrangements is set out in note 23 to the financial statements

## 1. ACCOUNTING POLICIES (continued)

### 1.10 Capital grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate

### 1.11 Capitalised interest

Interest costs on borrowings used to fund the construction of infrastructure assets are capitalised during the construction period Capitalisation ceases on commissioning

### 1.12 Evergreen 3 project

Accounting for the contract with Network Rail ("NR") has been split into two elements

The first element relates to the physical construction of railway infrastructure which is fully subcontracted The second element relates to the rendering of project related services to Network Rail by the company

The construction element of the contract with NR is divided into specific milestones each of which relates to NR taking into possession specific deliverables Each deliverable has been accounted for as a fixed price construction contract

Income is recognised on confirmation of completion of the deliverable from Network Rail as management do not believe they have sufficient visibility over the percentage completion of the deliverable to make an accurate estimate of the percentage completed until sign off is achieved Costs in respect of each deliverable are recognised within financial assets upon receipt of the invoice from the subcontractor Once the income for the deliverable is recognised within other operating income, the financial asset is recognised as an expense within other operating expenses

In respect of the service element of the contract, income is recognised when the service has been rendered and it is deemed fully recoverable This is considered to be the point at which the payment application for the service is approved by NR Costs incurred by the company relating to the particular services rendered are deferred as financial assets until the point at which income relating to those services is recognised

## 2. TURNOVER

An analysis of turnover by class of business is as follows

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Passenger income | **113,340** | 105,776 |
| Car parking | **5,329** | 4,846 |
| Letting | **2,152** | 2,339 |
| Commissions receivable | **1,726** | 1,635 |
| Other | **6,265** | 8,484 |
| | **128,812** | 123,080 |

All turnover arose within the United Kingdom

## 3. OTHER OPERATING INCOME

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Project related income | **66,718** | 56,041 |

The company had project related income in the year in relation to the Evergreen 3 project Accounting for the Evergreen 3 project under the contract with Network Rail ("NR") has been split into two elements

The first element relates to the physical construction of railway infrastructure which is fully subcontracted The second element relates to the rendering of project related services to Network Rail by the company

The construction element of the contract with NR is divided into specific milestones each of which relates to NR taking into possession specific deliverables Each deliverable has been accounted for as a fixed price construction contract

Income is recognised on confirmation of completion of the deliverable from Network Rail as management do not believe they have sufficient visibility over the percentage completion of the deliverable to make an accurate estimate of the percentage completed until sign off is achieved Costs in respect of each deliverable are recognised within financial assets upon receipt of the invoice from the subcontractor Once the income for the deliverable is recognised within other operating income, the financial asset is recognised as an expense within other operating expenses

In respect of the service element of the contract, income is recognised when the service has been rendered and it is deemed fully recoverable This is considered to be the point at which the payment application for the service is approved by NR Costs incurred by the company relating to the particular services rendered are deferred as financial assets until the point at which income relating to those services is recognised

## Notes to the financial statements for the year ended 31 December 2011

### 4. OPERATING (LOSS)/PROFIT

The operatıng (loss)/profit ıs stated after chargıng

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Amortısatıon - ıntangıble fixed assets | - | 33 |
| Deprecıatıon of tangıble fixed assets | | |
| - owned by the company | **2,632** | 5,157 |
| Operatıng lease rentals | | |
| - other plant, vehıcle and machınery | **125** | 55 |
| - property lease charge | **12,225** | 10,969 |

Durıng the year the company paıd rollıng stock lease charges amountıng to £17,970,000 (51 weeks ended 31 December 2010 £14,922,000) and raıl access charges of £27,194,000 (51 weeks ended 31 December 2010 £19,318,000)

Durıng the year the company made a loss on dısposal of fixed assets of £646,000 (51 weeks ended 31 December 2010 £269,000)

The company ıncurred project related costs of £76,868,000 ın relatıon to the Evergreen 3 project (see note 3) (51 weeks ended 31 December 2010 £57,418,000) and had ımpaırment charges (see note 12) of £34,700,000 (51 weeks ended 31 December 2010 £18,643,000) These costs are shown as other operatıng expenses on the face of the profit and loss account

### 5. AUDITORS' REMUNERATION

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Fees payable to the company's audıtor for the audıt of the company's annual financıal statements | **98** | 94 |
| Fees payable to the company's audıtor and ıts assocıates ın respect of All other servıces | **6** | 7 |

## Notes to the financial statements
## for the year ended 31 December 2011

### 6. STAFF COSTS

Staff costs, including directors' remuneration, were as follows

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Wages and salaries | 33,438 | 29,342 |
| Social security costs | 3,152 | 2,499 |
| Other pension costs (note 23) | 3,582 | 3,639 |
| | 40,172 | 35,480 |

The average monthly number of employees, including the directors, during the year was as follows

| | Year ended 31 December 2011 No. | 51 weeks ended 31 December 2010 No |
|---|---|---|
| Drivers | 233 | 229 |
| Engineering and maintenance | 143 | 140 |
| Administration and other | 392 | 376 |
| | 768 | 745 |

### 7. DIRECTORS' EMOLUMENTS

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Emoluments | 1,250 | 1,221 |
| Company contributions to defined benefit pension schemes | 145 | 140 |

During the year retirement benefits were accruing to 6 directors (2010 - 6) in respect of defined benefit pension schemes

The highest paid director received remuneration of £367,000 (2010 - £400,000) The accrued pension benefit in respect of the highest paid director amounted to £78,000 (2010 - £71,000)

# Notes to the financial statements for the year ended 31 December 2011

## 8. INTEREST RECEIVABLE AND SIMILAR INCOME

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Interest receivable on pension assets | 1,800 | 1,500 |
| Bank interest receivable | 74 | 64 |
| | 1,874 | 1,564 |

## 9. INTEREST PAYABLE AND SIMILAR CHARGES

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Interest on amounts due to group undertakings | 773 | 655 |
| Interest payable on pension scheme liabilities | 1,800 | 1,500 |
| | 2,573 | 2,155 |

The interest cost capitalised during the year was £68,000 (51 weeks ended 31 December 2010 £50,000) These borrowing costs were incurred to fund the construction of assets

## 10. TAX ON LOSS ON ORDINARY ACTIVITIES

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| **Analysis of tax (credit)/charge in the year/period** | | |
| **Current tax** (see note below) | | |
| UK corporation tax (credit)/charge on loss for the year/period | (7,304) | - |
| Adjustments in respect of prior periods | - | 818 |
| **Total current tax** | (7,304) | 818 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (2,950) | (348) |
| Adjustment in respect of previous periods | (981) | (967) |
| **Total deferred tax** (see note 17) | (3,931) | (1,315) |
| **Tax on loss on ordinary activities** | (11,235) | (497) |

## 10. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

### Factors affecting tax charge for the year/period

The tax assessed for the year/period is higher than (2010 - higher than) the standard rate of corporation tax in the UK of 26 5% (2010 - 28%) The differences are explained below

| | Year ended 31 December 2011 £000 | 51 weeks ended 31 December 2010 £000 |
|---|---|---|
| Loss on ordinary activities before tax | **(57,846)** | (16,972) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 - 28%) | **(15,329)** | (4,752) |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **2,031** | 2,487 |
| Capital allowances for year/period less than depreciation | **5,802** | 1,647 |
| Adjustments to tax charge in respect of prior periods | - | 818 |
| Group relief obtainable from parent for no charge | - | (9) |
| Unrelieved tax losses carried forward | - | 448 |
| Movement on FRS17 pension | **195** | 140 |
| Other timing differences | **(3)** | 39 |
| **Current tax (credit)/charge for the year/period** (see note above) | **(7,304)** | 818 |

### Factors that may affect future tax charges

On 21 March 2012 the Chancellor announced that the UK Corporation Tax rate applicable from 1 April 2012 would be 24% (as opposed to 25% which was substantively enacted on 5 July 2011) and that the previously announced reductions of 1% per annum would result in the UK Corporation Tax rate reducing to 22% (as opposed to 23%) with effect from 1 April 2014

## Notes to the financial statements for the year ended 31 December 2011

### 11. INTANGIBLE FIXED ASSETS

| | Licences £000 |
|---|---|
| **Cost** | |
| At 1 January 2011 and 31 December 2011 | 600 |
| **Accumulated amortisation** | |
| At 1 January 2011 and 31 December 2011 | 600 |
| **Net book value** | |
| At 31 December 2011 | - |
| At 31 December 2010 | - |

The company acquired the right to operate and became the facility owner of the Dorridge and Solihull stations on 12 November 2010 These assets were fully impaired during the prior period

### 12. TANGIBLE FIXED ASSETS

| | Freehold land £000 | Leasehold improvements £000 | Plant and machinery £000 | Infrastructure improvements under construction £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2011 | 2,657 | 31,405 | 37,643 | 7,535 |
| Additions | - | 935 | 13,830 | - |
| Disposals/transfers | - | - | (51) | (1,326) |
| At 31 December 2011 | 2,657 | 32,340 | 51,422 | 6,209 |
| **Accumulated depreciation** | | | | |
| At 1 January 2011 | - | 13,621 | 24,414 | - |
| Charge for the year | - | 847 | 1,785 | - |
| Impairment | - | 9,200 | 19,300 | 6,200 |
| At 31 December 2011 | - | 23,668 | 45,499 | 6,200 |
| **Net book value** | | | | |
| At 31 December 2011 | 2,657 | 8,672 | 5,923 | 9 |
| At 31 December 2010 | 2,657 | 17,784 | 13,229 | 7,535 |

## 12. TANGIBLE FIXED ASSETS (continued)

| | Total £000 |
|---|---|
| **Cost** | |
| At 1 January 2011 | 79,240 |
| Additions | 14,765 |
| Disposals/transfers | (1,377) |
| At 31 December 2011 | 92,628 |
| **Accumulated depreciation** | |
| At 1 January 2011 | 38,035 |
| Charge for the year | 2,632 |
| Impairment | 34,700 |
| At 31 December 2011 | 75,367 |
| **Net book value** | |
| At 31 December 2011 | 17,261 |
| At 31 December 2010 | 41,205 |

During the year, there were transfers of infrastructure improvements under construction of £1,326,000 to plant and machinery in relation to assets completed

The impairment charge has been measured by comparing the carrying value of the fixed assets in the income generating unit with the higher of the assets net realisable value and discounted future cash flows (in order to estimate the value in use) A pre-tax, nominal discount rate of 10 2% has been applied to the forecast future cash-flows

Management have projected the cash-flows to the end of the franchise in 2021 Management have used their latest budget which sets out a detailed plan for the years 2012 to 2016 as a basis for the cash-flow projections A constant growth rate of 6 0% has then been applied to revenues for the period 2016 to 2021 This figure has been derived by means of analysing forecast economic growth and inflation, along with the past performance of the company relative to these measures Operating costs have been projected to increase at the forecast rate of 4% to support the revenue line and at the rate of inflation for all other costs

As a result of managements assessment, the recoverable amount for the purposes of the impairment calculations was deemed to be the net realisable amount of the assets In estimating the net realisable amount, the directors believe there is no material difference between the book value and the market value of the freehold land

## 13. STOCKS

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Raw materials and consumables | 2,567 | 2,506 |

## Notes to the financial statements for the year ended 31 December 2011

### 14. DEBTORS

| | 2011 £000 | 2010 £000 |
|---|---|---|
| **Due after more than one year** | | |
| Other debtors | 62 | 62 |
| **Due within one year** | | |
| Trade debtors | 1,771 | 1,659 |
| Amounts owed by group undertakings | 240 | 1,903 |
| Amounts owed by undertakings in which the company has a participating interest | - | 43 |
| Group relief receivable | 7,304 | - |
| Rail settlement plan debtors | 1,586 | 181 |
| VAT debtors | 2,081 | 2,649 |
| Other debtors | 23,977 | 19,615 |
| Prepayments and accrued income | 1,669 | 7,635 |
| Deferred tax asset (see note 17) | 5,252 | 1,516 |
| | 43,942 | 35,263 |

### 15. CREDITORS: Amounts falling due within one year

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Trade creditors | 9,605 | 12,594 |
| Amounts owed to group undertakings | 617 | 581 |
| Social security and other taxes | 1,801 | 1,752 |
| Deferred season ticket income | 9,287 | 7,918 |
| Other creditors | 3,093 | 2,123 |
| Accruals and deferred income | 31,755 | 20,324 |
| | 56,158 | 45,292 |

Amounts due to group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand

### 16. CREDITORS: Amounts falling due after more than one year

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Amounts owed to group undertakings | 67,099 | 54,237 |
| Accruals and deferred income | 4,487 | 4,616 |
| | 71,586 | 58,853 |

## 17. DEFERRED TAX ASSET

Deferred tax movement (excluding pension surplus)

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Deferred tax asset/(liability) at 1 January 2011 | 1,516 | (1,699) |
| Credit during year/period | 3,736 | 3,215 |
| Deferred tax asset at 31 December 2011 | 5,252 | 1,516 |

The deferred tax asset (excluding deferred tax on the pension (deficit)/surplus) is made up as follows

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Accelerated capital allowances | 5,132 | (1,622) |
| Other timing differences | 120 | 133 |
| Losses | - | 3,005 |
| | 5,252 | 1,516 |

| | 2011 £000 | 2010 £000 |
|---|---|---|
| The deferred tax asset (including deferred tax on the pension (deficit)/surplus) is made up as follows | | |
| Accelerated capital allowances | 5,132 | (1,622) |
| Other timing differences | 120 | 133 |
| Losses | - | 3,005 |
| Deferred tax asset excluding that relating to pension (deficit)/surplus | 5,252 | 1,516 |
| Deferred tax relating to pension (deficit)/surplus | 1,509 | (1,900) |
| Total deferred tax | 6,761 | (384) |

| The movement in the deferred tax balance during the year was | Total £000 |
|---|---|
| Deferred tax liability at 1 January 2011 | (384) |
| Amount credited to the profit and loss account (see note 10) | 3,931 |
| Amount credited to the statement of total recognised gains and losses | 3,214 |
| **Deferred tax asset at 31 December 2011** | **6,761** |

At 31 December 2011 the company had an unprovided deferred tax asset, calculated at 25% of gross amounts, of approximately £2,532,000 (2010 £nil calculated at 27%), comprising mainly surplus tax losses It is not considered prudent to recognise the asset at the year end

## 18. CALLED UP SHARE CAPITAL

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| **Authorised, allotted and fully paid** | | |
| 2,150,000 Ordinary shares of £1 each (2010 2,150,000) | **2,150** | 2,150 |

## 19. RESERVES

| | Profit and loss account<br>£000 |
|---|---|
| At 1 January 2011 | (13,978) |
| Loss for the financial year | (46,611) |
| Deferred tax attributable to actuarial loss | 3,214 |
| Actuarial loss on pension scheme | (12,300) |
| At 31 December 2011 | (69,675) |

## 20. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| Opening shareholders' (deficit)/funds | **(11,828)** | 6,747 |
| Loss for the financial year/period | **(46,611)** | (16,475) |
| Actuarial loss on pension scheme including deferred tax | **(9,086)** | (2,100) |
| Closing shareholders' deficit | **(67,525)** | (11,828) |

## 21. CONTINGENT LIABILITIES

The company has received claims from the principal contractor on the Evergreen 3 project, BAM Nuttall, amounting to £50m In the opinion of the directors none of these claims have been substantiated and are therefore repudiated by the company The company's advising lawyers support this position Following the legal advice received and the directors' assessment of the validity of the claims, no provision has been deemed necessary within the financial statements Furthermore, the directors consider that there are potential counter claims for liquidated damages and other contractual claims against the principal contractor by the company to cover incremental costs incurred

## 22. CAPITAL COMMITMENTS

Future commitments in respect of capital expenditure on car parks and various other projects for which no provision had been made are as follows

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Contracted for but not provided in these financial statements | 2,600 | 5,979 |

Under an obligation of the franchise agreement the company is committed to spend £1 9m a year, index linked, on improvements to the infrastructure until the end of the franchise This amount is not contracted as at the year end but is part of identified capital expenditure to be spent during the next financial year

The company has performance and Liquidity Maintenance bonds in place from Bayerische Landesbank to meet its obligations under the franchise agreement amounting to £38 0m It also has a performance bond in place to cover the liabilities on Season Tickets purchased in advance The amount of this bond varies throughout the year and in 2011 was between £5 9m to £9 9m (2010 £5 7m to £7 7m)

## 23. PENSION COMMITMENTS

**Defined benefit pension scheme**

The company operates a defined benefit scheme, which comprises of The Chiltern Railway Company Limited Section and The Chiltern Railway Company Limited (Maintenance) Section, for the benefit of the employees and executive directors The assets of the scheme are administered by trustees in a fund independent from the assets of the company

The sections are part of the Railways Pension Scheme ("RPS") The RPS is a defined benefit occupation scheme in which costs are formally shared between the employer (60%) and the employee (40%) The appropriate share of the assets of the shared cost sections are allocated accordingly

The only obligation of the company is to have paid the required contributions during the franchise period Therefore the surplus or deficit in the section existing at the end of the franchise is taken on by the subsequent franchisee As the company will have no obligation in relation to pension contributions after the expiry date of the franchise, it is considered appropriate that only the proportion of the deficit expected to be "made good" by the company over the franchise term is recognised at the balance sheet date At the commencement of the franchise in 2002, a surplus was recognised

The company has no rights or obligations in respect of the section of the RPS pension scheme following expiry of the franchise Therefore, the surplus or deficit recognised for the relevant sections of the RPS only represents that part of the net surplus or deficit of each section that the employer is expected to recover, or obliged to fund, over the life of the franchise to which the section relates The actuaries have assumed that no members will leave the scheme before the end of the franchise where the contributions demanded from the employees to increase significantly as a percentage of salary

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method The notes below are in accordance with the FRS17 'Retirement Benefits' disclosure The latest full actuarial valuation was carried out at 31 December 2010

During the year the government announced that the Consumer Prices Index (CPI ) should replace the Retail Prices Index (RPI) as the inflation measure to use in determining the minimum pension increases which must be applied to statutory index-linked features of retirement benefit The company has accounted for this as a change in accounting assumption and therefore any resulting changes in scheme liabilities represent an actuarial gain or loss

## 23. PENSION COMMITMENTS (continued)

**Analysis of the amount recognised in the balance sheet**

| | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| | £000 | £000 |
| (Deficit)/surplus in scheme | (23,417) | 11,700 |
| Members' share of (deficit)/surplus | 9,367 | (4,700) |
| Franchise adjustment | 8,016 | - |
| **Pension (deficit)/surplus** | **(6,034)** | **7,000** |

**Analysis of movement in the (deficit)/surplus during the period**

The company's members' contributions are excluded from the net analysis of the movement in the (deficit)/surplus for the period below

| | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| | £000 | £000 |
| Surplus at beginning of period | 7,000 | 9,900 |
| Current service cost (employer's share) | (3,700) | (3,700) |
| Contributions | 2,966 | 2,900 |
| Actuarial losses (employer's share) | (12,300) | (2,100) |
| Pension (deficit)/surplus | (6,034) | 7,000 |
| Deferred taxation on pension (deficit)/surplus | 1,509 | (1,900) |
| **Net pension (deficit)/surplus at end of period** | **(4,525)** | **5,100** |

**Analysis of the amount recognised in the statement of total recognised gains and losses**

| | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| | £000 | £000 |
| Opening cumulative recognised gains | 6,400 | 8,500 |
| Actuarial (loss)/gain on Chiltern scheme assets | (2,104) | 2,500 |
| Actuarial (loss) on Chiltern scheme liabilities | (18,212) | (4,600) |
| Franchise adjustment | 8,016 | - |
| Actuarial loss in the period | (12,300) | (2,100) |
| **Closing cumulative recognised (losses)/gains** | **(5,900)** | **6,400** |

**Analysis of amounts charged to the profit and loss account**

| | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| **Analysis of amounts charged to operating profit** | £000 | £000 |
| Current service cost | 3,700 | 3,700 |
| Release of opening pension surplus on commencement of franchise | (215) | (210) |
| **Net amounts charged to operating profit** | **3,485** | **3,490** |

| | 31 Dec 2011 | 31 Dec 2010 |
|---|---|---|
| **Analysis of amounts credited/(charged) to net interest payable** | £000 | £000 |
| Expected return on pension scheme assets (employer's share) | 1,800 | 1,500 |
| Interest on scheme liabilities (employer's share) | (1,800) | (1,500) |
| **Net credit/(charge) to interest receivable and similar income** | - | - |

## Notes to the financial statements
## for the year ended 31 December 2011

### 23. PENSION COMMITMENTS (continued)

**Actuarial assumptions**

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions that, due to the timescale covered, may not necessarily be borne out in practice The main assumptions used by the actuary were

| | 31 Dec 2011 | 31 Dec 2010 | 9 Jan 2010 |
|---|---|---|---|
| Rate of increase in salaries | 4 0% | 4 5% | 4 7% |
| Rate of increase for pensions in payment | 2 0% | 2 8% | 3 7% |
| Discount rate | 5 0% | 5 5% | 5 5% |
| Rate of inflation | 3 0% | 3 5% | 3 7% |
| Rates of increase for deferred pensioners | 2 0% | 2 8% | 3 7% |
| | | | |
| Post-retirement life expectancy | | | |
| Male currently aged 65, at age 65 | | 20 7 | 20 6 |
| Male/female currently aged 60 at age 60 | | 25 4/27 8 | 25 2/27 7 |
| Male/female currently aged 40 at age 40 | | 27 7/29 9 | 27 6/29 8 |

The weighted average life expectancy for mortality tables to determine benefit obligations in current year

| | | 31 Dec 2011 Years |
|---|---|---|
| Member age 65 (current life expectancy) | - male | 17 |
| | - female | 19 |
| Member age 65 (current life expectancy) | - male | 18 |
| | - female | 20 |

The estimated amount of contributions expected to be paid by the company to the schemes during the next financial period is £3 4 million

**Scheme assets**

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class The expected return is set by reference to market indicators including price inflation, dividend yields, economic growth, yields on index-linked gilts and bonds and interest rates The fair value of the scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were

| | Expected rate of return 31 Dec 2011 % | Value at 31 Dec 2011 £000 | Expected rate of return 31 Dec 2010 % | Value at 31 Dec 2010 £000 |
|---|---|---|---|---|
| Equities - Pooled Fund | - | - | - | - |
| Growth Pooled Fund | - | - | 8 5 | 57,200 |
| Equity - Other | 6 8 | 71,279 | 8 0 | 10,900 |
| Bonds | 4 6 | 2,204 | 4 0 | 2,000 |
| Property | - | - | - | - |
| Other | - | - | 0 5 | 300 |
| **Total market value of assets** | **6.3** | **73,483** | **8.3** | **70,400** |
| Present value of scheme liabilities | | (96,900) | | (58,700) |
| **Pension (deficit)/surplus including members' share** | | **(23,417)** | | **11,700** |

## 23. PENSION COMMITMENTS (continued)

**Changes in the fair value of plan assets and present value of the defined benefit obligation**

| | 31 Dec 2011 £000 | 31 Dec 2010 £000 |
|---|---|---|
| Opening fair value of plan assets | 70,400 | 60,500 |
| Expected return | 3,000 | 2,400 |
| Actual return less expected return on pension scheme assets | (3,506) | 4,000 |
| Contributions paid by employer | 2,966 | 2,900 |
| Contributions paid by members | 2,523 | 1,900 |
| Benefits paid | (1,900) | (1,300) |
| **Closing fair value of plan assets** | **73,483** | **70,400** |

| | 31 Dec 2011 £000 | 31 Dec 2010 £000 |
|---|---|---|
| Opening defined benefit obligation | 58,700 | 44,000 |
| Service cost | 6,166 | 6,000 |
| Interest cost | 3,000 | 2,400 |
| Actuarial loss on scheme liabilities | 30,934 | 7,600 |
| Benefits paid | (1,900) | (1,300) |
| **Total defined benefit obligation** | **96,900** | **58,700** |

Costs and income that have been reflected on the shared cost basis in the profit and loss account and statement of total recognised gains and losses have been grossed up to 100%

**Amounts for current and previous four years**

| | 2011 £000 | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 |
|---|---|---|---|---|---|
| Defined benefit obligation | 96,900 | 58,700 | 44,000 | 57,700 | 61,000 |
| Plan assets | 73,483 | 70,400 | 60,500 | 49,200 | 66,600 |
| (Deficit)/surplus (including members' share) | (23,417) | 11,700 | 16,500 | (8,500) | 5,600 |
| Actuarial (loss)/gain on Chiltern scheme liabilities | (18,212) | (4,600) | (11,300) | (5,700) | 4,900 |
| Actuarial (loss)/gain on Chiltern scheme assets | (2,104) | 2,500 | (3,400) | 13,900 | 300 |

**Defined contribution pension schemes**

The company has a defined contribution scheme which is open to new entrants and existing employees alike The cost of the scheme is equal to the contributions payable to the scheme for the period which were £97,000 (2010 - £149,000) There were no outstanding or prepaid contributions at either the beginning or the end of the financial period

## 24. OPERATING LEASE COMMITMENTS

At 31 December 2011 the company had annual commitments under non-cancellable operating leases as follows

| | Land and buildings | | | Other |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| **Expiry date:** | | | | |
| Within 1 year | 62 | 84 | - | - |
| Between 2 and 5 years | 30 | 31 | - | 50 |
| After more than 5 years | 10,863 | 11,367 | 49,649 | 36,245 |

**Track access charges**

The company has contracts with Network Rail and London Underground for access to the railway infrastructure These contracts are in place until the end of the franchise The contracts may be terminated by joint agreement between the companies The company is committed to pay charges of £34 6m in the next financial period

**Franchise subsidy/payment**

At the commencement of the franchise a payment profile was agreed which involved receipts from the Department for Transport ("DfT") in the early part of the franchise and payments to the DfT in the later stages The net outflow in respect of such payments from the balance sheet date to the end of the franchise is £74 1 million

## 25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent is M40 Trains Limited

The ultimate parent undertaking and controlling party is Deutsche Bahn AG, a company incorporated in Germany The results have been consolidated in the financial statements of this parent undertaking whose financial statements are available from its address at Potsdamer Platz 2, 10785 Berlin, Germany

Deutsche Bahn AG is the largest group to consolidate the financial statements and DB Mobility Logistics AG is the smallest

Information on The Chiltern Railway Company Limited can be found at their registered address The Chiltern Railway Company Limited, Great Central House, Marylebone Station, Melcombe Place, London NW1 6JJ

Transactions with other companies in the Deutsche Bahn Group are not specifically disclosed as the company has taken advantage of the exemption available under FRS 8 'Related party disclosures' for wholly-owned subsidiaries