THE CHILTERN RAILWAY COMPANY LIMITED

Annual report and financial statements

for the year ended 31 December 2013

Company Information

Directors	A C Munden G P Cross T M Ableman D T Rimmer R W Brighouse A Furlong J Payne R Ward D Penney
Company secretary	L Edwards
Company number	3007939
Registered office	Great Central House, Marylebone Station Melcombe Place London NW1 6JJ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square South Orchard Street Newcastle upon Tyne NE1 3AZ

Contents

Strategic report for the year ended 31 December 2013

The directors present their Strategic report for the year ended 31 December 2013.

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 Birmingham and 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 8 shows a profit on ordinary activities before taxation of £0.8m (2012 - loss of £6.0m).

The turnover growth for 2013 continued to be industry leading, although, as expected, not to the extent of 2012. The growth continues to be as a result of the improved timetable that was introduced in December 2011 and further refined in December 2012. It is no coincidence that the growth has been experienced during a time when there has been excellent operational performance, with the best right time performance in the industry.

Additional car park capacity added in 2012 and continued marketing efforts aimed at generating new business to rail helped deliver 8.8% growth.

The company was awarded 5 star European Foundation for Quality Management (EFQM) status in 2013.

During the year the company satisfactorily resolved a claim from BAM Nuttall its principal contractor on the first phase of the upgrade to the Chiltern line. This had no material impact on the financial performance of the company.

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 8.8% (2012 - 25.2%).

Public Performance Measurement was 95.2% (moving annual average for 2013) (2012 - 94.7%). 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 90.1% (2012 - 91.4 %). Customer Satisfaction Rating was 91% for Autumn 2013 (2012 - 91%). The Customer Satisfaction rating is another national performance indicator conducted independently. The average nationally for train operating companies was 86% (2012 - 86%).

Future development

The Department for Transport (DfT), Network Rail and Chiltern Railways agreed the way forward with the second phase of the upgrade to the Chiltern line (Project Evergreen 3), following the granting of a Transport and Works Act order in 2012, and an unsuccessful appeal against it. The scope of the project is now different as a result of Government proposals for the new East-West rail link. New agreements with the DfT and Network Rail mean that the upgrade to the Chiltern line can be undertaken at the same time as the East-West work between Bicester and Oxford. The line between Bicester and Oxford will be upgraded with new stations at Bicester Town and north of Oxford (Oxford Parkway) along with a new link to the existing Chiltern line to London at Bicester. The line to Oxford is planned to open in the first half of 2016, with a service to Oxford Parkway commencing in late 2015.

Strategic report (continued)

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 Chiltern Railway Company 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.

This report was approved by the board on 24 April 2014 and signed on its behalf.

L Edwards
Company secretary

Directors' report
for the year ended 31 December 2013

The directors present their report and the financial statements for the year ended 31 December 2013.

Results and dividends

The loss for the financial year amounted to £843,000 (2012 - loss £4,690,000).

The directors did not recommend the payment of any dividends during the year (2012 - £Nil).

Directors

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

A C Munden
G P Cross
C M Marjoribanks (resigned 30 September 2013)
T M Ableman
D T Rimmer
S J Murphy (resigned 24 March 2014)
R W Brighouse
A Furlong
J Payne
R W Holland (resigned 1 January 2013)
R Ward (appointed 31 January 2013)
D Penney (appointed 1 November 2013)

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.

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.

Directors' report
for the year ended 31 December 2013

Disabled employees

The company continues to give full and fair consideration to applications for employment by disabled persons, having regard to their respective aptitudes and abilities. The company's policy includes, where applicable, the continued employment of those who may become disabled during their employment.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, 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 judgements 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

Disclosure 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 relevant audit information and to establish that the company's auditors are aware of that information.

Going concern

In February 2014 the company was re-financed which resulted in the balance sheet of the company showing net assets (as opposed to net liabilities) and shareholders' funds (as opposed to shareholders' deficit). This re-financing involved the company issuing 1 further ordinary share of £1 to the immediate parent company, M40 Trains Limited, in exchange for a cash consideration of £90 million.

As a result of the above, the directors believe it is appropriate to prepare the accounts on a going concern basis.

Directors' report
for the year ended 31 December 2013

This report was approved by the board on 24 April 2014 and signed on its behalf.

L Edwards
Company secretary

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by The Chiltern Railway Company Limited, comprise:

- the balance sheet as at 31 December 2013;
- the profit and loss account for the year then ended;
- the statement of recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic 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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

Bill MacLeod

Bill MacLeod (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
25 April 2014

Profit and loss account
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
TURNOVER	1,2	166,840	152,956
Cost of sales		(157,214)	(141,329)
GROSS PROFIT		9,626	11,627
Administrative expenses		(14,331)	(14,671)
Other operating income	3	7,617	11,958
Other operating charges		(2,906)	(11,662)
OPERATING PROFIT/(LOSS)	4	6	(2,748)
EXCEPTIONAL ITEMS			
Impairment of tangible fixed assets		-	(5,317)
Release of grant on impaired assets		326	2,504
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		332	(5,561)
Interest receivable and similar income	8	4,244	3,418
Interest payable and similar charges	9	(3,771)	(3,828)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		805	(5,971)
Tax on profit/(loss) on ordinary activities	10	(1,648)	1,281
LOSS FOR THE FINANCIAL YEAR	19	(843)	(4,690)

All amounts relate to continuing operations.

There are no material differences between the profit/(loss) on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

The notes on pages 11 to 29 form part of these financial statements.

Statement of total recognised gains and losses for the year ended 31 December 2013

	Note	2013 £000	2012 £000
LOSS FOR THE FINANCIAL YEAR		(843)	(4,690)
Deferred tax attributable to actuarial loss	17	(3,640)	789
Actuarial gain/(loss) on pension schemes	22	16,951	(3,925)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		12,468	(7,826)

The notes on pages 11 to 29 form part of these financial statements.

Balance sheet
as at 31 December 2013

	Note	£000	2013 £000	£000	2012 £000
FIXED ASSETS					
Intangible assets	11		-		-
Tangible assets	12		25,076		17,472
			25,076		17,472
CURRENT ASSETS					
Stocks	13	3,338		2,680	
Debtors	14	17,238		38,965	
Cash at bank and in hand		-		312	
		20,576		41,957	
CREDITORS: amounts falling due within one year	15	(58,305)		(71,327)	
NET CURRENT LIABILITIES			(37,729)		(29,370)
TOTAL ASSETS LESS CURRENT LIABILITIES			(12,653)		(11,898)
CREDITORS: amounts falling due after more than one year	16		(57,038)		(56,187)
Net pension surplus/(deficit)	22		6,808		(7,266)
NET LIABILITIES			(62,883)		(75,351)
CAPITAL AND RESERVES					
Called up share capital	18		2,150		2,150
Profit and loss account	19		(65,033)		(77,501)
TOTAL SHAREHOLDERS' DEFICIT	20		(62,883)		(75,351)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 April 2014.

D T Rimmer
Director

The notes on pages 11 to 29 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2013

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.

1.2 Cash flow statement

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 2013, these assets were fully impaired.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less 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

1. ACCOUNTING POLICIES (continued)

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 prior year. There is no impairment for 2013.

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.

1.8 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. 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 22 to the financial statements.

Notes to the financial statements
for the year ended 31 December 2013

1. ACCOUNTING POLICIES (continued)

1.10 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 NR 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 NR 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.

For the first phase of this project, 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.

For the second phase of the project, in accordance with the agreement with NR, costs and income are recognised on an ongoing basis as they are deemed recoverable under the terms of that agreement.

1.11 Exceptional costs - Impairment / Grants

As a result of management's assessment, the recoverable amount for the purposes of the impairment assessment was deemed to be the net realisable amount of the assets. A proportion of these assets were part funded through capital grants which were released against the depreciation charges on these assets. As these assets have been impaired the grants not yet amortised have been released against the impairment charge.

1.12 Going concern

In February 2014 the company was re-financed which resulted in the balance sheet of the company showing net assets (as opposed to net liabilities) and shareholders' funds (as opposed to shareholders' deficit). This re-financing involved the company issuing 1 further ordinary share of £1 to the immediate parent company, M40 Trains Limited, in exchange for a cash consideration of £90 million.

As a result of the above, the directors believe it is appropriate to prepare the accounts on a going concern basis.

1. ACCOUNTING POLICIES (continued)

1.13 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.

2. TURNOVER

An analysis of turnover by class of business is as follows:

	2013 £000	2012 £000
Passenger income	**154,481**	141,942
Car parking	**7,056**	6,188
Commissions receivable	**1,937**	1,805
Other	**3,366**	3,021
	166,840	152,956

All turnover arose within the United Kingdom.

3. OTHER OPERATING INCOME

	2013 £000	2012 £000
Project related income	**5,038**	9,339
Letting income	**2,555**	2,619
Profit on sale of fixed assets	**24**	-
	7,617	11,958

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 as per the accounting policy note 1.10.

Notes to the financial statements
for the year ended 31 December 2013

4. OPERATING PROFIT/(LOSS)

The operating profit/(loss) is stated after charging:

	2013	2012
	£000	£000
Depreciation of tangible fixed assets:		
- owned by the company	562	344
Operating lease rentals:		
- other plant, vehicle and machinery	204	-
- property lease charge	8,209	7,926

During the year the company paid rolling stock lease charges amounting to £21,348,000 (2012: £19,161,000) and rail access charges of £41,996,000 (2012: £36,663,000).

During the year the company made a profit on disposal of fixed assets of £24,000 (2012: loss of £48,000).

The company incurred project related costs of £2,906,000 in relation to the Evergreen 3 project (2012: £11,662,000) and had impairment charges (see note 12) of £Nil (2012: £5,317,000).

The company wrote off capital grants received in the year which were attributable to impaired assets of £326,000 (2012 - £2,504,000).

5. AUDITORS' REMUNERATION

	2013	2012
	£000	£000
Fees payable to the company's auditor for the audit of the company's annual financial statements	109	104
Fees payable to the company's auditor and its associates in respect of:		
All other non-audit services not included above	21	26

Notes to the financial statements
for the year ended 31 December 2013

6. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2013 £000	2012 £000
Wages and salaries	36,057	35,347
Social security costs	3,289	3,220
Other pension costs (note 22)	4,106	3,225
	43,452	41,792

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

	2013 No.	2012 No.
Drivers	249	236
Engineering and maintenance	159	144
Administration and other	371	386
	779	766

7. DIRECTORS' EMOLUMENTS

	2013 £000	2012 £000
Remuneration	1,234	1,067
Company contributions to defined benefit pension schemes	120	118

During the year retirement benefits were accruing to 6 directors (2012 - 6) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £272,000 (2012 - £208,000). The accrued pension benefit in respect of the highest paid director amounted to £28,000 (2012 - £26,000).

Notes to the financial statements
for the year ended 31 December 2013

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £000	2012 £000
Interest receivable on pension assets	3,241	3,000
Interest on rail franchise adjustment	1,000	400
Bank interest receivable	3	18
	4,244	3,418

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £000	2012 £000
On bank loans and overdrafts	269	-
Interest on amounts due to group undertakings	502	828
Interest payable on pension scheme liabilities	3,000	3,000
	3,771	3,828

10. TAX ON LOSS ON ORDINARY ACTIVITIES

	2013 £000	2012 £000
Analysis of tax charge/(credit) in the year		
Current tax (see note below)		
UK corporation tax credit on loss for the year	(763)	(1,759)
Adjustments in respect of prior periods	(442)	(80)
Total current tax	(1,205)	(1,839)
Deferred tax		
Origination and reversal of timing differences	1,271	304
Adjustment in respect of previous periods	1,582	254
Total deferred tax (see note 17)	2,853	558
Tax on profit/loss on ordinary activities	1,648	(1,281)

Notes to the financial statements
for the year ended 31 December 2013

10. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2012 - lower than) the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%). The differences are explained below:

	2013 £000	2012 £000
Profit/loss on ordinary activities before tax	805	(5,971)
Profit/loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	187	(1,463)
Effects of:		
Expenses not deductible for tax purposes	2	1
Capital allowances for year (more than)/less than depreciation	(716)	119
Adjustments in respect of prior periods	(442)	(80)
Amortisation of non-taxable capital grants	(4)	(430)
Movement on FRS17 pension	(231)	(128)
Other timing differences	(1)	142
Current tax credit for the year (see note above)	(1,205)	(1,839)

Factors that may affect future tax charges

During 2012 the Chancellor announced that the UK Corporation Tax rate applicable from 1 April 2013 would be 23%, and that the UK Corporation Tax rate applicable from 1 April 2014 would be 21%.

On 20 March 2013 the Chancellor made a further announcement that the UK Corporation Tax rate applicable from 1 April 2015 would be 20%.

11. INTANGIBLE FIXED ASSETS

	Licences £000
Cost	
At 1 January 2013 and 31 December 2013	600
Accumulated amortisation	
At 1 January 2013 and 31 December 2013	600
Net book value	
At 31 December 2013	-
At 31 December 2012	-

The company acquired the right to operate and became the facility owner of the Dorridge and Solihull stations on 12 November 2010. These assets have been fully impaired in a prior period.

Notes to the financial statements
for the year ended 31 December 2013

12. TANGIBLE FIXED ASSETS

	Freehold land £000	Leasehold improvements £000	Plant and machinery £000	Infrastructure improvements under construction £000
Cost				
At 1 January 2013	2,657	33,058	54,782	6,377
Additions	-	-	5,726	2,440
Disposals	-	(16)	(3,851)	-
Transfers	-	-	522	(522)
At 31 December 2013	2,657	33,042	57,179	8,295
Accumulated depreciation				
At 1 January 2013	-	24,386	48,816	6,200
Charge for the year	-	-	562	-
Disposals	-	(16)	(3,851)	-
At 31 December 2013	-	24,370	45,527	6,200
Net book value				
At 31 December 2013	2,657	8,672	11,652	2,095
At 31 December 2012	2,657	8,672	5,966	177

	Total £000
Cost	
At 1 January 2013	96,874
Additions	8,166
Disposals	(3,867)
Transfers	-
At 31 December 2013	101,173
Accumulated depreciation	
At 1 January 2013	79,402
Charge for the year	562
Disposals	(3,867)
At 31 December 2013	76,097
Net book value	
At 31 December 2013	25,076
At 31 December 2012	17,472

Notes to the financial statements
for the year ended 31 December 2013

13. STOCKS

	2013 £000	2012 £000
Raw materials and consumables	3,338	2,680

14. DEBTORS

	2013 £000	2012 £000
Due after more than one year		
Other debtors	13	12
Due within one year		
Trade debtors	4,910	3,338
Amounts owed by group undertakings	185	393
Group relief receivable	763	1,759
Rail settlement plan debtors	-	2,710
VAT debtors	1,242	2,946
Other debtors	4,338	20,616
Prepayments and accrued income	3,586	2,369
Deferred tax asset (see note 17)	2,201	4,822
	17,238	38,965

15. CREDITORS:
Amounts falling due within one year

	2013 £000	2012 £000
Cash overdraft	102	-
Trade creditors	13,136	17,660
Amounts owed to group undertakings	5,372	6,450
Other taxation and social security	1,822	1,822
Deferred season ticket income	11,280	10,364
Other creditors	3,655	3,874
Accruals and deferred income	22,938	31,157
	58,305	71,327

Notes to the financial statements for the year ended 31 December 2013

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

	2013 £000	2012 £000
Amounts owed to group undertakings	35,000	53,880
Accruals and deferred income	22,038	2,307
	57,038	56,187

Deferred capital grant income of £0.3 million was released in the current year to offset the impairment charges on the assets to which they related.

17. DEFERRED TAX ASSET

Deferred tax movement (excluding pension surplus):

	2013 £000	2012 £000
Deferred tax asset at 1 January	4,822	5,252
Profit and loss account movement	(2,621)	(430)
Deferred tax asset at 31 December	2,201	4,822

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

	2013 £000	2012 £000
Capital allowances less than depreciation	2,089	4,578
Other timing differences	112	244
	2,201	4,822

At 31 December 2013 the company had an unprovided deferred tax asset, calculated at 20% (2012 - 23%) of gross amounts, of approximately £2,049,000 (2012: £2,536,000), comprising mainly surplus tax losses. It is not considered prudent to recognise the asset at the year end.

Notes to the financial statements for the year ended 31 December 2013

	2013 £000	2012 £000
The deferred tax balance (including deferred tax on the pension surplus/deficit) is made up as follows:		
Capital allowances less than depreciation	2,089	4,578
Other timing differences	112	244
Deferred tax asset excluding that relating to pension surplus/deficit	2,201	4,822
Deferred tax relating to pension surplus/deficit	(1,702)	2,170
Total deferred tax	499	6,992

The movement in the deferred tax asset during the year was:	Total £000
Deferred tax asset at 1 January 2013	6,992
Amount charged to the profit and loss account (see note 10)	(2,853)
Amount charged to the statement of total recognised gains and losses	(3,640)
Deferred tax asset at 31 December 2013	**499**

18. CALLED UP SHARE CAPITAL

	2013 £000	2012 £000
Authorised, allotted and fully paid		
2,150,000 Ordinary shares of £1 each (2012: 2,150,000)	2,150	2,150

In February 2014 the company issued 1 further ordinary share of £1 to the immediate parent company, M40 Trains Limited, in exchange for a cash consideration of £90 million.

19. RESERVES

	Profit and loss account £000
At 1 January 2013	(77,501)
Loss for the financial year	(843)
Deferred tax attributable to actuarial gain	(3,640)
Actuarial gain on pension scheme	16,951
At 31 December 2013	(65,033)

Notes to the financial statements
for the year ended 31 December 2013

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2013 £000	2012 £000
Opening shareholders' deficit	(75,351)	(67,525)
Loss for the financial year	(843)	(4,690)
Actuarial gain/(loss) on pension scheme including deferred tax	13,311	(3,136)
Closing shareholders' deficit	(62,883)	(75,351)

21. CAPITAL COMMITMENTS

At 31 December the company had capital commitments as follows:

	2013 £000	2012 £000
Contracted for but not provided in these financial statements	3,496	269

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 2013 was between £6.9m to £9.9m. (2012: £5.9m to £9.9m).

22. 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 actuarial valuation was carried out at 31 December 2013.

Notes to the financial statements
for the year ended 31 December 2013

Analysis of the amount recognised in the balance sheet

	2013	2012
	£000	£000
Deficit in scheme	(41,595)	(36,574)
Members' share of deficit	16,638	14,630
Franchise adjustment	33,467	12,508
Pension surplus/(deficit)	8,510	(9,436)

Analysis of movement in the deficit during the year

The company's members' contributions are excluded from the net analysis of the movement in the deficit for the year below.

	2013	2012
	£000	£000
(Deficit)/surplus at beginning of year	(9,436)	(6,034)
Current service cost (employer's share)	(4,000)	(3,128)
Contributions	3,754	3,251
Actuarial losses (employer's share)	16,951	(3,925)
Interest on rail franchise adjustment	1,241	400
Pension surplus/(deficit)	8,510	(9,436)
Deferred taxation on pension surplus/(deficit)	(1,702)	2,170
Net pension surplus/(deficit) at end of year	6,808	(7,266)

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

	2013	2012
	£000	£000
Opening cumulative recognised losses	(9,825)	(5,900)
Actuarial gain on Chiltern scheme assets	830	479
Actuarial loss on Chiltern scheme liabilities	(3,838)	(8,496)
Franchise adjustment	19,959	4,092
Actuarial gain/(loss) in year	16,951	(3,925)
Closing cumulative recognised gains/(losses)	7,126	(9,825)

Analysis of amounts charged to the profit and loss account

	2013	2012
Analysis of amounts charged to operating profit	£000	£000
Current service cost	4,000	3,128
Net amounts charged to operating profit	4,000	3,128

	2013	2012
Analysis of amounts credited to net interest payable	£000	£000
Expected return on pension scheme assets (employer's share)	3,241	3,000
Interest on scheme liabilities (employer's share)	(3,000)	(3,000)
Interest on rail franchise adjustment	1,000	400
Net credit to interest receivable and similar income	1,241	400

Notes to the financial statements for the year ended 31 December 2013

Actuarial assumptions

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

	2013	2012	2011
Rate of increase in salaries	**4.0%**	3.5%	4.0%
Rate of increase for pensions in payment	**2.3%**	2.1%	2.0%
Discount rate	**4.3%**	4.4%	5.0%
Rate of inflation	**3.3%**	2.8%	3.0%
Rates of increase for deferred pensioners	**2.3%**	2.1%	2.0%

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

			2013	2012
			Years	Years
Member age 65 (current life expectancy)	- male	- male	**17**	17
	- female	- female	**19**	19
Member age 45 (life expectancy at age 65)	- male	- male	**18**	18
	- female	- female	**20**	20

The estimated amount of contributions expected to be paid by the company to the schemes during the next financial year is £4.1 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 at 31 December 2013	Value at 31 December 2013	Expected rate of return at 31 December 2012	Value at 31 December 2012
	%	**£000**	%	£000
Equity - Other	**7.6**	**85,678**	6.7	74,779
Bonds	**4.3**	**2,794**	4.5	2,438
Other	**6.6**	**4,656**	5.9	4,064
Total market value of assets		**93,128**	6.3	81,281
Present value of scheme liabilities		**(134,723)**		(117,855)
Pension deficit including members' share		**(41,595)**		(36,574)

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

	2013	2012
	£000	£000
Opening fair value of plan assets	**81,281**	73,483
Expected return	**5,401**	5,000
Actual return less expected return on pension scheme assets	**1,384**	798
Contributions paid by employer	**3,754**	3,251
Contributions paid by members	**2,308**	2,349
Benefits	**(1,000)**	(3,600)
Closing fair value of plan assets	**93,128**	81,281

Notes to the financial statements for the year ended 31 December 2013

	2013 £000	2012 £000
Opening defined benefit obligation	**117,855**	96,900
Service cost	**6,665**	5,213
Interest cost	**5,000**	5,000
Actuarial loss on scheme liabilities	**6,203**	14,342
Benefits paid	**(1,000)**	(3,600)
Total defined benefit obligation	**134,723**	117,855

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

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Defined benefit obligation	**(134,723)**	(117,855)	(96,900)	(58,700)	(44,000)
Plan assets	**93,128**	81,281	73,483	70,400	60,500
(Deficit)/surplus (including members' share)	**(41,595)**	(36,574)	(23,417)	11,700	16,500
Actuarial loss on chiltern scheme liabilities	**(3,838)**	(8,496)	(18,212)	(4,600)	(11,300)
Actuarial gain/(loss) on Chiltern scheme assets	**830**	479	(2,104)	2,500	(3,400)

Defined contribution pension schemes
The company has a defined contribution scheme which is now closed to new entrants and existing employees alike. The cost of the scheme is equal to the contributions payable to the scheme for the year which were £121,000 (2012 - £97,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

23. OPERATING LEASE COMMITMENTS

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

	Land and buildings			Other
	2013 £000	2012 £000	2013 £000	2012 £000
Expiry date:				
Within 1 year	-	678	-	-
Between 2 and 5 years	513	73	-	-
After more than 5 years	12,534	11,212	67,069	55,626

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.

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.

Notes to the financial statements for the year ended 31 December 2013

24. POST BALANCE SHEET EVENTS

In February 2014 the company was re-financed which resulted in the balance sheet of the company showing net assets (as opposed to net liabilities) and shareholders' funds (as opposed to shareholders' deficit). This re-financing involved the company issuing 1 further ordinary share of £1 to the immediate parent company, M40 Trains Limited, in exchange for a cash consideration of £90 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 of The Chiltern Railway Company Limited 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.