DB Schenker Rail (UK) Limited

Directors' report and financial statements

For the year ended 31 December 2011

Registered number 02938988

DB Schenker Rail (UK) Limited

Directors' report and financial statements

Contents | *Pages*

Directors' report

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

Principal activities
The principal activities of the company are the haulage of freight by rail and other related services within the UK

Business review and future developments
The company's profit on ordinary activities before taxation for the year is £51 million (2010 loss of £8 million) The company's profit for the year is £46 million (2010 loss of £2 million) Both the level of business and the year end financial position were satisfactory given the economic and operational climate

The external commercial environment is expected to remain competitive in the year ahead, however, the directors remain confident that the company will maintain and build on the current level of performance in the future

Principal risks and uncertainties
The management of the business and the execution of the company's strategy are subject to a number of risks

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of English Welsh & Scottish Railway Holdings Limited and all its subsidiary undertakings (the "EWS group") and are not managed separately The most significant risks to the profitability of the EWS group are

(i) Loss of significant customer contracts,
(ii) Increased employee costs,
(iii) Exposure to foreign exchange rate movements,
(iv) Increased track access and diesel fuel costs,
(v) Loss of access to Network Rail infrastructure, and
(vi) Increased Government regulation

The Directors have strategies to manage and mitigate these risks and remain confident of the continued success of the EWS group

Management of financial risk
The major financial exposures faced by the company are to exchange rate and interest rate movements and the price of diesel fuel

The directors of the EWS group review these risks and approve guidelines covering the use of financial instruments to manage these risks and define the overall risk limits All the company's financial instruments are arranged through the Deutsche Bahn group treasury function and are held for risk management purposes

The company has implemented policies that require appropriate credit checks on potential customers before sales are made

Directors' report *(continued)*

Key performance indicators (KPIs)
The directors of the EWS group manage the group's operations on a divisional basis For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of DB Schenker Rail (UK) Limited

The key performance indicators monitored by the directors for the EWS group include earnings before interest and taxation (EBIT), total revenue, net tonne kilometres, train path kilometres, tonnage and headcount

The development, performance and position of all EWS group companies are reported within the consolidated results of Deutsche Bahn AG, the ultimate parent company The financial statements of Deutsche Bahn AG can be viewed at www db de

Results and dividends
The results for the company show a net profit of £46 million and revenue of £452 million for the year ended 31 December 2011 (2010 net loss of £2 million and revenue of £401 million)

The directors do not recommend the payment of a dividend (2010 £nil)

Directors
The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows

A Thauvette	
M R Lawrence	(Resigned 1 August 2011)
A Luebs	(Appointed 1 August 2011)

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006 The indemnity was in force throughout the last financial year and is currently in force The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors

Employees
The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate

During the period, employees have been provided with information about the company through newsletters and circulars in which employees have also been encouraged to present their suggestions and views Regular meetings are held between local management and employees to allow a free flow of information

Political and charitable donations
Senior management of the EWS group attend dinners held by both of the main political parties This expenditure of £4,549 (2010 £5,949) is considered to constitute a political donation No other political donations were, however, incurred (31 December 2010 £nil)

Charitable donations of £349 (31 December 2010 £nil) were made, and in addition time and resources were also made available as part of our charitable endeavours

Directors' report *(continued)*

Land and buildings
The directors believe the freehold and long leasehold land and buildings have a market value materially in excess of the current book value However, a full property valuation on an open market value basis has not been performed and hence any associated excess of market value over current book value cannot be disclosed with reasonable certainty

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 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
For each person who is a director at the time of approval of this report

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent auditors
In accordance with section 487(2) of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, will continue in office

On behalf of the board

A. Lu

A Luebs
Director
10 April 2012

Independent auditors' report to the members of DB Schenker Rail (UK) Limited.

We have audited the financial statements of DB Schenker Rail (UK) 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, the reconciliation of movements in shareholders' funds 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 3 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 and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit 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 DB Schenker Rail (UK) Limited *(continued)*

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Andrew Ward (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
11 April 2012

DB Schenker Rail (UK) Limited

Profit and loss account for the year 31 December 2011

	Note	**Year to 31 December 2011** *£ million*	Year to 31 December 2010 *£ million*
Turnover		**452**	401
Operating costs		**(413)**	(390)
Exceptional costs	2	**-**	(28)
Operating costs including exceptional items		**(413)**	(418)
Operating profit/(loss)	3	**39**	(17)
Profit on sale of fixed assets		**7**	11
Other finance income/(charges)	6	**5**	(1)
Interest payable and similar charges	7	**-**	(1)
Profit/(loss) on ordinary activities before taxation		**51**	(8)
Tax on profit/(loss) on ordinary activities	8	**(5)**	6
Profit/(loss) for the financial year	17	**46**	(2)

All of the company's activities are continuing

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

	Note	**Year to 31 December 2011** *£ million*	Year to 31 December 2010 *£ million*
Profit/(loss) for the financial year		**46**	(2)
Decrease in donated asset reserve	17	**(1)**	(1)
Actuarial gain on pension scheme	19	**1**	44
Movement in deferred tax relating to pension deficit	15	**(2)**	(13)
Total recognised gains and losses relating to the year		**44**	28

DB Schenker Rail (UK) Limited
Registered number: 02938988

Balance sheet as at 31 December 2011

	Note	2011 *£ million*	2010 *£ million*
Fixed assets			
Intangible assets	9	**-**	-
Tangible assets	10	**250**	266
		250	266
Current assets			
Stocks	11	**17**	16
Debtors	12	**201**	153
Cash at bank and in hand		**2**	2
		220	171
Creditors: amounts falling due within one year	13	**(164)**	(160)
Net current assets		**56**	11
Total assets less current liabilities		**306**	277
Creditors: amounts falling due after more than one year	14	**(7)**	(4)
Provisions for liabilities	15	**(51)**	(68)
Net assets excluding pension deficit		**248**	205
Pension deficit	19	**(65)**	(66)
Net assets including pension deficit		**183**	139
Capital and reserves			
Called up share capital	16	**19**	19
Share premium account	17	**72**	72
Other reserves	17	**27**	28
Profit and loss account	17	**65**	20
Total shareholders' funds		**183**	139

The financial statements on pages 6 to 25 were approved by the board of directors on 10 April 2012 and were signed on its behalf by

A Thauvette
Director

A Luebs
Director

Reconciliation of movements in shareholders' funds

	Note	**Year to 31 December 2011** *£ million*	Year to 31 December 2010 *£ million*
Profit/(loss) for the financial year		**46**	(2)
Decrease in donated asset reserve	17	**(1)**	(1)
Actuarial gain on pension scheme	19	**1**	44
Movement on deferred tax relating to the pension deficit	15	**(2)**	(13)
Net change in shareholders' funds		**44**	28
Opening shareholders' funds		**139**	111
Closing shareholders' funds		**183**	139

DB Schenker Rail (UK) Limited

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

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation
These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 2006 and applicable accounting standards The principal accounting policies are set out below

The company is exempt from the requirement of Financial Reporting Standard 1 'Cash Flow Statements' (revised 1996) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Deutsche Bahn AG, and its cash flows are included within the consolidated cash flow statement of that company

Under Financial Reporting Standard 8 'Related Parties' paragraph 3(c) the company is exempt from the requirement to disclose transactions with related parties in the Deutsche Bahn AG group as all of the company's voting rights are controlled within the group

Goodwill
The goodwill that arose on the acquisition of the business of Rail Charter Services Limited has been amortised over 10 years, being the period for which the assets acquired had a derogation to operate on the rail network Other goodwill is amortised over 20 years as this is considered to reflect most appropriately its useful economic life

Fixed assets and depreciation
Tangible fixed assets are stated at original cost or valuation less accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives from the time assets come into service as follows

Land and buildings	
Freehold buildings	40 years
Leasehold land and buildings	life of lease
Rolling stock	20 to 50 years
Plant, machinery and equipment	3 to 15 years
Infrastructure	10 to 30 years

Rolling stock improvements are depreciated over the remaining life of the relevant asset No depreciation is provided on freehold land Assets in the course of construction are not depreciated

Leases
Leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

Government grants
Capital based government grants are included within deferred income in the balance sheet and credited to trading profit over the estimated useful economic lives of the assets to which they relate Revenue based government grants are credited to trading profit in the period in which the expenditure to which they relate is incurred

1 Accounting policies *(continued)*

Stocks

Stocks are stated at the lower of cost and net realisable value Cost is determined using the average weighted cost method Provision is made against slow moving or obsolete inventory on an item by item basis

Pensions and other post-retirement benefits

The company's employees are members of two group wide pension schemes, a defined benefits scheme and a defined contribution scheme

The company's defined benefit scheme operates as a section within the Railways Pension Scheme (RPS) which provides pension benefits throughout the railway industry Under the rules of RPS the cost of accruing benefits is split between the company and employees in a ratio of 60 40 Surpluses or deficits on the scheme attributed to the employer in line with this ratio are recorded in the financial statements of the company

The company recognises and discloses its pension obligations in accordance with the shared cost nature of the scheme as set out above and the measurement and presentational requirements of Financial Reporting Standard 17 'Retirement Benefits' The recognition includes a number of adjustments and estimates in respect of the expected rate of return on assets, the discount rate, inflation assumptions, rate of increase in salaries and life expectancy and the future joint contribution rate, amongst others

For the defined benefit scheme, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit The expected returns on the scheme's liabilities arising from the passage of time are included in other finance income Actuarial gains and losses are recognised in the statement of total recognised gains and losses

As the company is the largest contributing employer of the 'EWS group', and therefore the major sponsoring employer, the full surpluses or deficits of the scheme are disclosed in these financial statements

Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised on the basis of the company's 60 40 split of contributions and presented on the face of the balance sheet net of the related deferred tax

For the defined contribution scheme, the amount recognised in the profit and loss account is equal to the contributions payable to the scheme during the year

Foreign exchange

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contract rate if the transaction is covered by a forward exchange contract Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward exchange contract rate All differences are taken to the profit and loss account except to the extent that they are recoverable from a third party in which case they are recorded as a debtor

1 Accounting policies *(continued)*

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an non-discounted basis

No provision is made for timing differences on revaluation surpluses on fixed assets unless there is a firm commitment to sell the asset in question, nor is any provision raised on gains rolled over in replacement assets

Hedging
Gains and losses on hedging contracts are recognised in the profit and loss account when they are closed out

Provisions
Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

Turnover
Turnover is stated net of value added tax and represents amounts invoiced to third parties and estimates in respect of amounts not invoiced for sales arising in the period

Turnover and operating loss is attributable to the haulage of freight by rail and related ancillary services which wholly arises in the UK Turnover is recognised on the completion of the related service

Donated asset reserve
The donated asset reserve arises when assets are gifted to the company The donated asset reserve is released in line with the depreciation charged on the assets

2 Exceptional costs

	Year to 31 December 2011 *£ million*	Year to 31 December 2010 *£ million*
Redundancy costs	-	(14)
Onerous lease provision	-	(14)
	-	(28)

Redundancy costs
In the year ended 31 December 2010 a number of headcount savings were either realised or identified and provided for The cost of the restructuring was reflected in the exceptional charge

2 Exceptional costs *(continued)*

Onerous lease provision

Due to operational requirements in the prior year a number of leased rolling stock assets were not in use Consequently an onerous lease provision was raised equal to the future operating lease payments on the un-used rolling stock

3 Operating profit/(loss)

	Year to 31 December 2011 *£ million*	Year to 31 December 2010 *£ million*
Operating profit/(loss) is stated after (charging)/crediting:		
Depreciation of tangible fixed assets		
- owned	(20)	(21)
Rentals payable under operating leases		
- Land and buildings	(1)	(1)
- plant and machinery	(53)	(51)
Other exceptional items *(note 2)*	1	(27)
Amortisation of Government capital grants	1	1
Management charge to other group companies	8	10
Release of donated asset reserve	1	1
Rents receivable from property	14	15

	Year to 31 December 2011 *£'000*	Year to 31 December 2010 *£'000*
Services provided by the company's auditor		
Fees payable for the audit	280	406
Fees payable for other services	114	27

The audit fee disclosed above relates to all audit services for the company and its fellow EWS group companies

4 Remuneration of directors

	Year to 31 December 2011 £	Year to 31 December 2010 £
Aggregate emoluments	72,141	364,401
Sums paid to third parties for directors' services	819,210	535,384
	891,351	899,785

None of the directors' held share options of the company during the year ended 31 December 2011 (2010 nil) Retirement benefits are accruing to 1 (2010 1) director under a defined benefit scheme

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

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows

	Year to 31 December 2011 ***Number***	Year to 31 December 2010 *Number*
By activity		
Management and operation of rail freight and associated services	2,744	3,092

The aggregate payroll costs of these persons were as follows

	Year to 31 December 2011 ***£ million***	Year to 31 December 2010 *£ million*
Wages and salaries	123	124
Social security costs	10	9
Other pension costs *(note 19)*	18	18
Other staff costs	5	6
	156	157

6 Other finance income/(charges)

	Year to 31 December 2011 ***£ million***	Year to 31 December 2010 *£ million*
Expected return on pension scheme assets *(note 19)*	35	31
Interest on pension scheme liabilities *(note 19)*	(30)	(32)
	5	(1)

7 Interest payable and similar charges

	Year to 31 December 2011 ***£ million***	Year to 31 December 2010 *£ million*
Interest payable to other group companies	-	(1)

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

8 Tax on profit/(loss) on ordinary activities

Analysis of charge in period

	Year to 31 December 2011 ***£ million***	Year to 31 December 2010 *£ million*
Current tax		
UK corporation tax – current period	13	4
UK corporation tax – prior period	(5)	-
	8	4
Deferred tax		
Origination and reversal of timing differences – current period	-	(8)
Origination and reversal of timing differences – prior period	(3)	(2)
Tax on profit/(loss) on ordinary activities	5	(6)

The tax for the period is lower (2010 higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2011 of 26 5% (2010 28%) The differences are explained below

	Year to 31 December 2011 ***£ million***	Year to 31 December 2010 *£ million*
Profit/(loss) on ordinary activities before tax	51	(8)
Profit/(loss) on ordinary activities before tax multiplied by the effective rate of UK corporation tax of 26 5% (2010 28%)	14	(2)
Effects of		
Capital allowances less than depreciation	(1)	5
Adjustments to tax charge in respect of previous periods	(5)	-
Financial Reporting Standard 17	-	1
Current tax charge for the period	8	4

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011 Accordingly, the company's profits for this accounting period are taxed at an effective rate of 26 5% and following the 'Finance Act 2011' will be taxed at 25 25% for the year ended 31 December 2012

Implications of the 'Finance Act 2011'

The Finance Act 2011, which was substantively enacted on 5 July 2011, includes legislation reducing the main rate of corporation tax to 25% from 1 April 2012 As the Finance Act 2011 was substantively enacted at the balance sheet date, deferred tax balances at 31 December 2011 have been calculated using a tax rate of 25% Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 These proposed reductions in the main rate of corporation tax are expected to be enacted separately each year The overall effect of the further changes from 25% to 23%, if these were applied to the deferred tax balance at 31 December 2011, would be to reduce the deferred tax liability by approximately £2 6 million (being £1 3 million recognised in 2012 and £1 3 million in 2013)

8 Tax on profit/(loss) on ordinary activities *(continued)*

Further developments

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

9 Intangible assets

	Goodwill *£ million*
Gross value	
At 1 January 2011 and **31 December 2011**	1
Accumulated amortisation	
At 1 January 2011 and **31 December 2011**	1
Net book value	
At 31 December 2011	-
At 31 December 2010	-

10 Tangible assets

	Land and buildings *£ million*	Rolling stock *£ million*	Plant, machinery and equipment *£ million*	Infra-structure *£ million*	Assets in course of construction *£ million*	Total *£ million*
Cost or valuation						
At 1 January 2011	57	341	117	43	17	575
Additions	-	-	-	-	13	13
Disposals	(5)	(13)	(5)	(1)	(2)	(26)
Transfers	-	4	1	-	(5)	-
At 31 December 2011	52	332	113	42	23	562
Accumulated depreciation						
At 1 January 2011	20	179	87	23	-	309
Charge for the period	2	12	4	2	-	20
On disposals	(2)	(10)	(4)	(1)	-	(17)
At 31 December 2011	20	181	87	24	-	312
Net book value						
At 31 December 2011	32	151	26	18	23	250
At 31 December 2010	37	162	30	20	17	266

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

10 Tangible assets *(continued)*

Analysis of land and buildings

	2011 **£ million**	2010 *£ million*
Analysis of land and buildings at cost or valuation		
At cost	26	31
At valuation	6	6
	32	37

	2011 **£ million**	2010 *£ million*
The net book value of land and buildings comprises		
Freehold	27	32
Long leasehold	5	5
	32	37

If land and buildings had not been revalued, they would have been included at the following amounts

	2011 **£ million**	2010 *£ million*
Cost	45	50
Aggregate depreciation	(19)	(19)
Net book value	26	31

11 Stocks

Stocks comprise primarily spare parts held for the ongoing maintenance of assets and diesel fuel

12 Debtors

	2011 **£ million**	2010 *£ million*
Trade debtors	49	47
Amounts owed by group undertakings	125	67
Other debtors	7	8
Prepayments and accrued income	20	31
	201	153

Amounts owed by group undertakings are unsecured, attract interest at LIBOR+2% and are repayable on demand

13 Creditors: amounts falling due within one year

	2011 £ million	2010 £ million
Bank overdraft	-	1
Trade creditors	40	47
Amounts owed to group undertakings	69	73
Corporation tax payable	12	8
Other taxes and social security	23	13
Accruals and deferred income	17	18
Other creditors	3	-
	164	160

Amounts owed to group undertakings are unsecured, attract interest at LIBOR+2% and are repayable on demand

14 Creditors amounts falling due after more than one year

	2011 £ million	2010 £ million
Deferred income due after more than one year		
Government capital grants	1	2
Other contributions to capital expenditure	2	2
Other deferred income	4	-
	7	4
Comprising of		
Government capital grants		
At 1 January 2011	2	2
Credited to profit and loss account	(1)	-
At 31 December 2011	1	2
Other contributions to capital expenditure		
At 1 January 2011 and 31 December 2011	2	2
Other deferred income		
At 1 January 2011	-	-
Income received in advance	4	-
At 31 December 2011	4	-

Other deferred income represents income received from a fellow subsidiary of the Deutsche Bahn AG group in advance of the provision of services

15 Provisions for liabilities

	At 1 January 2011 *£ million*	Utilised during the period *£ million*	Unutilised amounts released in the period *£ million*	Provisions created in the period *£ million*	At 31 December 2011 *£ million*
Deferred tax provision	37	-	(4)	-	33
Redundancy provision	9	(6)	-	-	3
Claims provision	4	(3)	(1)	2	2
Onerous lease provision	16	(6)	-	-	10
Other provisions	2	-	-	1	3
Total provisions	68	(15)	(5)	3	51

Deferred tax provision

The deferred tax provision arises as a consequence of timing differences between the recognition of certain items for tax compared to their recognition under generally accepted accounting practice An analysis of the impact of these items on the deferred tax provision is provided below

	2011 *£ million*	2010 *£ million*
Accelerated capital allowances	33	37

It is anticipated that all existing provisions will be utilised or the circumstances currently requiring provision to be made will no longer exist within the next five years

Deferred tax asset relating to pension deficit

	2011 *£ million*	2010 *£ million*
At 1 January	24	37
Deferred tax credited to the statement of total recognised gains and losses		
- on actuarial gain	-	(12)
- change in tax rate	(2)	(1)
At 31 December	22	24

The deferred tax asset of £22 million (2010 £24 million) has been recognised in arriving at the pension deficit on the balance sheet

Redundancy provision

The redundancy provision reflects committed costs of future planned redundancies at 31 December 2011

Claims provision

The claims provision represents the anticipated costs of claims made by third parties to the extent they are not recoverable from the company's insurers

DB Schenker Rail (UK) Limited

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

15 Provisions for liabilities *(continued)*

Onerous lease provision
The onerous lease provision reflects the difference between future lease payments arising on certain assets and the value of those assets to the business discounted at the company's marginal cost of capital

Other provisions
Other provisions reflects the potential liabilities relating to environmental remediation work, rates and other property provisions

16 Called up share capital

	2011 **£ million**	2010 *£ million*
Authorised		
26,947,932 ordinary shares of £1 each	27	27
Allotted and fully paid		
18,947,932 ordinary shares of £1 each	19	19

17 Reserves

	Capital reserve *£ million*	Donated asset reserve *£ million*	**Other Reserves** ***£ million***	**Share premium account** ***£ million***	**Profit and loss account** ***£ million***
At 1 January 2011	9	19	28	72	20
Profit for the financial year	-	-	-	-	46
Release from donated asset reserve	-	(1)	(1)	-	-
Actuarial gain on pension scheme	-	-	-	-	1
Movement on deferred tax relating to actuarial loss on pension scheme	-	-	-	-	(2)
At 31 December 2011	9	18	27	72	65

18 Commitments and contingent liabilities

(i) Capital commitments at the end of the financial year for which no provision has been made

	2011 ***£ million***	2010 *£ million*
Contracted	-	-

(ii) There were no commitments at the period end to enter into finance leases starting after the period end (2010 £nil)

18 Commitments and contingent liabilities *(continued)*

(iii) Annual commitments under non-cancellable operating leases for land and buildings and equipment delivered by the period end are as follows

	2011		2010	
	Land and buildings £ million	**Plant and machinery £ million**	Land and buildings £ million	Plant and machinery £ million
Operating leases which expire				
Within one year	-	-	-	-
In the second to fifth years inclusive	-	44		44
Over five years	1	8	1	9
	1	52	1	53

(iv) Legal and regulatory matters

In the ordinary course of business the company is required to address contractual issues and queries from customers and employees, and periodic queries and investigations from government regulatory bodies, which could potentially result in adverse financial consequences for the company As at 31 December 2011 the matters outstanding, in the opinion of the directors, are not expected to have a materially adverse effect

(v) Government grants

Facilities now operated by the company have previously benefited from the receipt of freight facilities grants from the Scottish Government (totalling £10 4m) A proportion of the grants are potentially repayable if certain environmental benefit conditions (anticipated to arise from the grant investment) are not achieved within defined periods in the future As at 31 December 2011, in the opinion of the Directors, measures are in place to mitigate the risk of a repayment obligation arising

19 Pension scheme

The group's main pension scheme for employees is a final salary defined benefits scheme

As the company is the largest contributing employer, and therefore the major sponsoring employer, the full surpluses or deficits of the scheme attributable to the company are disclosed in these financial statements

The total contribution rate payable under the Railways Pension Scheme (RPS) is normally split in the proportion 60 40 between the company and the members The company reflects its share of the contribution in the financial statements

If a surplus or deficit arises, the provisions in the rules mean that the company and the members benefit from or pay for this respectively in the proportion 60 40

19 Pension scheme *(continued)*

This actuarial valuation has provided the starting point for the calculation of the current position under Financial Reporting Standard 17 The roll forward to 31 December 2011 has been performed by a qualified independent actuary The changes in the amounts recognised in the statement of total recognised gains and losses (STRGL) were

	2011 **£ million**	2010 *£ million*
Opening cumulative STRGL	(178)	(222)
Actuarial gain	1	44
Closing cumulative STRGL	(177)	(178)

The fair value of assets in the scheme and the expected rate of return were as follows

	Value at 31 December 2011 ***£ million***	**Expected rate of return as at 31 December 2011**	Value at 31 December 2010 *£ million*	Expected rate of return as at 31 December 2010
Equities	509 4	6 83%	476 1	8 00%
Bonds-government	48 5	4 58%	45 2	4 20%
Bonds– non-government	50 0	4 58%	47 3	5 25%
Property	63 6	5 83%	60 3	7 00%
Cash	1 8	2 83%	1 1	0 50%
Other	121 0	6 17%	192 9	7 50%
Total	794 3		822 9	

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class The expected returns are set by reference to market indicators, including price inflation, dividend yields, economic growth, yields on gilts and bonds and interest rates

	2011 ***£ million***	2010 *£ million*
Actual return on plan assets (100%)	(17)	95

The most significant financial assumptions behind the Financial Reporting Standard 17 calculations are as follows

	2011	2010
Inflation rate – RPI	3 00%	3 50%
Inflation rate – CPI	2 00%	2 80%
Salary inflation	3 70%	3 80%
Promotional salary increases	-	0 40%
Pension growth	2 00%	2 80%
Discount rate	5 00%	5 25%

19 Pension scheme *(continued)*

The mortality assumptions adopted in the actuarial valuations have been amended to assume that pensioners have a longer life expectancy The mortality assumptions used in the valuation of the defined benefit pension liabilities of the group's scheme are summarised in the table below and have been selected to reflect the characteristics and experiences of the Railways Pension Scheme as a whole It is assumed that mortality in retirement will follow a table based on PXA92 (c=2003) mortality tables, including an addition to the liability value for pensioners of 9 2% and for non-pensioners of 14%, to allow for future improvements in life expectancy

	2011	2010
	Years	*Years*
Longevity at age 60 for current pensioners		
- Men	23 9	25 4
- Women	25 5	27 8
Longevity at age 40 for future pensioners		
- Men	26 3	27 7
- Women	28 0	29 9

History of experience gains and losses

	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008	31Dec 2007
	£ million	*£ million*	*£ million*	*£ million*	*£ million*
Company's share of present value of defined benefit	(564)	(584)	(577)	(461)	(490)
Company's share of value of assets	477	494	444	388	534
(Deficit)/Surplus	(87)	(90)	(133)	(73)	44
Experience (loss)/gain on scheme plan liabilities	(19)	21	(2)	(14)	(1)
Difference between the expected and actual return on assets	(46)	26	37	(179)	(1)

The best estimate of contributions to be paid to the plan by the company in 2012 is £14 million

Estimate of the profit and loss figures for the year ending 31 December 2012

	£ million
Employer's service cost (including BRASS)	15
Interest cost	27
Expected return on assets	(30)
Net estimated profit and loss charge	12

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

19 Pension scheme *(continued)*

The following amounts at 31 December 2011 were measured in accordance with the requirements of Financial Reporting Standard 17

		2011		2010
		£ million		*£ million*
Total market value of assets	794		823	
Less members share of assets	(317)		(329)	
Company's share of assets		477		494
Total present value of scheme liabilities, including member's agreed contribution reductions	(940)		(974)	
Less members' share of scheme liabilities	376		390	
Company's share of scheme liabilities		(564)		(584)
Deficit in scheme		(87)		(90)
Related deferred tax asset		22		24
Net pensions liability		(65)		(66)

Reconciliation of present value of scheme liabilities

	2011	2010
	£ million	*£ million*
At 1 January	584	577
Current service cost	18	18
Interest cost	30	32
Benefits paid	(18)	(24)
Actuarial gain	(47)	(19)
Liabilities extinguished on settlements	(3)	-
At 31 December	564	584

Reconciliation of present value of scheme assets

	2011	2010
	£ million	*£ million*
At 1 January	494	444
Contributions by employer	14	18
Expected return on scheme assets	35	31
Benefits paid	(18)	(24)
Actuarial (loss)/gain	(46)	25
Assets distributed on settlements	(2)	-
At 31 December	477	494

19 Pension scheme *(continued)*

The amounts recognised in the profit and loss account are as follows

	2011 **£ million**	2010 £ million
Current service cost	18	18
Expected return on pension scheme assets	(35)	(31)
Interest cost on pension scheme liabilities	30	32
Total charge	13	19

In addition, as part of the Railway Pension Scheme, the EWS group operates an additional voluntary contribution scheme, (known as "Brass"), under which all eligible employees can make additional pension contributions Employee contributions up to specific individual limits (as at 10 December 1996) are matched on a pound for pound basis by the company Subsequent increases in employee contributions are not matched

Employer contributions in respect of the year ended 31 December 2011 totalled £711,248 (2010 £891,167) and contributions of £1,459,533 (2010 £nil) were to be paid over as at 31 December 2011 Brass holds funds for members that will be used to purchase additional benefits at retirement on a money purchase basis

Implications of the 'Finance Act 2011'

As the Finance Act 2011 was substantively enacted at the balance sheet date, deferred tax balances at 31 December 2011 have been calculated using a tax rate of 25% Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 The overall effect of the further changes from 25% to 23%, if these were applied to the deferred tax balance at 31 December 2011, would be to reduce the deferred tax asset by approximately £1 8 million (being £0 9 million recognised in 2012 and £0 9 million in 2013)

20 Ultimate parent company and controlling party

The immediate parent company is Boreal & Austral Railfreight Limited

The directors consider that the ultimate controlling party and the smallest and largest group in which the results of the company are consolidated is that headed by Deutsche Bahn AG, which is incorporated in the Federal Republic of Germany The financial statements of Deutsche Bahn AG can be viewed at www db de