

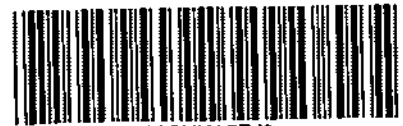
Direct Rail Services Limited

Registered No. 3020822



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COMPANIES HOUSE

Annual Report and Accounts

2012/2013

DIRECTORS

A Moore (Chairman)
S Johnston (Non Executive Director)
M Liefeth (Non Executive Director)
J McLaughlin (Non Executive Director)
J Bamforth (Finance and Resources Director)
C Connelly (Commercial Director)
N McNicholas (Managing Director)

SECRETARY

H E Hodgson

AUDITORS

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

BANKERS

National Westminster Bank Plc
P O Box 305
Spring Gardens
Manchester
M60 2DB

REGISTERED OFFICE

Herdus House
Westlakes Science & Technology Park
Moor Row
Cumbria
CA24 3HU

Directors' report

The Directors present their report and the audited financial statements of the company for the year ended 31 March 2013

Principal activities

The Company's principal activities during the year continued to be the haulage of freight by rail within the UK. The main areas of business continue to be -

- providing specialist transport services to the nuclear industry, in particular the rail element of the transport of spent nuclear fuel from power stations, the return of reprocessed nuclear fuel to its country of origin and the transport of waste to licensed sites,
- providing intermodal transport generally between domestic rail hubs in partnership with logistics providers who service the retail sectors within the UK and,
- providing support for the UK rail network by undertaking track conditioning and logistics support to engineering work, condition monitoring, and supporting other train operating companies

Business review

The business results relating to the current year are described below

	2013 £000	2012 £000
Revenue	60,014	50,243
Operating Profit	3,743	2,683
Profit Before Tax	3,735	3,120
Net Return on Sales	6.2%	6.2%

The level of business has increased over the previous year and the Company has continued to expand its customer base in existing business sectors, despite the challenging market conditions. The Company has also exceeded its target profitability through the enormous efforts of all staff, who have contributed in terms of reducing costs and increasing revenues. During the year the workforce has maintained industry-leading levels of operational performance. The Directors expect the Company's operations to expand in the foreseeable future.

Attention is drawn to the financial impact of the section of the GPS Pension Scheme that the Company participates in. There is now a deficit in the defined benefit pension scheme of £1,355,000 compared with a surplus at the beginning of the financial year of £2,422,000. This decrease during the year, is largely attributed to a number of actuarial factors. The Directors take a long-term view of the pension scheme and intend to continue to invest in the provision of this important staff reward. Further details of pension contributions can be found in the notes to the financial statements.

The Company maintains a strong balanced set of cross-business Key Performance Indicators (KPIs). These KPIs contain amongst others, Safety, Security, Environmental, Operational and Customer performance targets, which are benchmarked to ensure well above average performance against industry norms. Through structured management reviews combined with independent audit, the Directors have satisfied themselves that an excellent level of performance has been achieved throughout the year.

Directors' report (continued)

Financial risk management

In addition to the effects of the continuing general economic downturn, the major financial risks faced by the Company continue to relate to pension costs and to the price of diesel fuel, which along with payroll costs, constitute a major operating cost for the business

All business risks are managed through the maintenance of a comprehensive risk register, which is reviewed on a regular basis by senior management and the Board of Directors. In particular, the company has managed its risk to pension costs by closing the defined benefit structure of the scheme to new entrants on 1 April 2008 and making available a defined contribution structure for all new employees from that date. As regards increases in fuel costs, where practicable, the Company has indexation agreements with its customers

The Company has entered into a foreign currency forward swap arrangement to mitigate against foreign currency rate movements in relation to refundable EURO deposits lodged with a supplier. Other than this arrangement, the Company does not use derivatives or other financial instruments in managing the risk associated with its business, and the Company does not engage in speculative treasury arrangements. All treasury activities are carried out under policies approved by the Board. Further information on financial risk management is provided in note 24 to the financial statements

Results and dividends

The profit for the year, after taxation, amounted to £3,735,000 (2012 £3,120,000). The Directors do not recommend a final dividend

Directors

The directors who held office during the year are given below -

A Moore	(Chairman)
S Johnston	(Non Executive Director)
M Lieferth	(Non Executive Director)
J McLaughlin	(Non Executive Director)
J Bamforth	(Finance and Resources Director)
C Connelly	(Commercial Director)
N McNicholas	(Managing Director)

Employees

The Company has an active Joint Business Council that meets quarterly to consult and negotiate on many employee relations issues. In addition to other local employee forums, the Joint Business Council has operated successfully for several years and the Company formally recognises two unions to give every employee the option of union representation and working relationships with employees and their unions, have continued to develop this year in a constructive and forward-thinking manner

The Company attaches importance to the involvement of its employees in the Company's development and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company through the use of newsletters and briefs in person to all staff at all locations by the Company directors. The Company has a bonus arrangement in place to incentivise its employees in achieving a suite of performance targets

The Company is committed to a policy of equal opportunities for all employees. Great care is exercised in our human resource procedures to ensure that there is no discrimination and that training is given to meet individual needs. Applications by people with disabilities are given full and fair consideration and, wherever practical, provision is made for their special needs. The same criteria for training and promotion apply to people with disabilities as to any other employee. If employees become disabled, every effort is made to ensure their continued employment

Directors' report (continued)

Charitable donations

As part of the Company's commitment to the community in which it operates, contributions totalling £9,279 (2012 £5,240) were made during the year. In particular, contributions totalling £1,008 (2012 £1,766) were made to Eden Valley Hospice (registered charity 1008796)

Statement of directors' responsibilities

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

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the financial statements the directors are required to

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

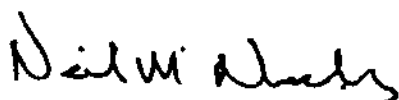
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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

Auditors and disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Annual general meeting and auditors

In accordance with the requirements of the Companies Act 2006 the Company is not required to hold an Annual General Meeting or to re-appoint the auditors on an annual basis



On behalf of the Board
N McNicholas, Managing Director

Date 9 December 2013

Auditors' report

Independent auditors' report to the members of Direct Rail Services Limited

We have audited the Annual Reports and Accounts of Direct Rail Services Limited for the year ended 31 March 2013 which comprise the Statement of comprehensive income, Statement of financial position, Statement of cash flows, Statement of changes in equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

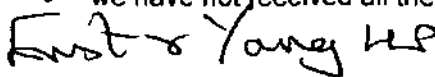
Opinion on other matter prescribed by the Companies Act 2006

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

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.


Julian Yates (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

Date 20 December 2013

**Statement of comprehensive income
for the year ended 31 March 2013**

	<i>Notes</i>	2013 £000	2012 £000
Revenue	5	60,014	50,243
Net operating costs and expenses	6	(56,271)	(47,560)
Operating profit		3,743	2,683
Finance income	9	339	659
Finance costs	10	(347)	(222)
Profit before tax		3,735	3,120
Tax	11	-	-
Profit for the financial year		3,735	3,120
Other comprehensive income			
Recognition of deficit on defined benefit pension scheme	27	(1,355)	-
Loss on defined benefit pension scheme		(312)	(989)
Total comprehensive income for the year		2,068	2,131

All amounts derive from continuing operations

**Statement of financial position
as at 31 March 2013**

	Notes	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	12	22,149	20,688
Financial assets	15	-	73
		22,149	20,761
Current assets			
Inventories	13	3,048	2,323
Trade and other receivables	17	14,895	6,495
Other current financial assets	15	61	-
Cash and cash equivalents	19	5,060	6,907
		23,064	15,725
Receivables greater than one year	18	-	1,856
		23,064	17,581
Total assets		45,213	38,342
Current liabilities			
Obligations under finance leases	20	(1,174)	(379)
Trade and other payables	21	(10,971)	(9,129)
Other current financial liabilities	16	(185)	-
		(12,330)	(9,508)
Non-current assets plus net current assets		32,883	28,834
Non-current liabilities			
Obligations under finance leases	20	(988)	(362)
Borrowings	22	(7,000)	(7,000)
Employee benefit liability	27	(1,355)	-
		(9,343)	(7,362)
Net assets		23,540	21,472
Equity			
Share capital	23	-	-
Retained earnings		23,540	21,472
Total equity		23,540	21,472

The financial statements on pages 7 to 32 were approved by the board of directors on and were signed on its behalf by -

N McNicholas,
Managing Director



Date 9 November 2013
Company Registered Number 3020822

**Statement of cash flows
as at 31 March 2013**

	<i>Notes</i>	2013 £000	2012 £000
Cash flows from operating activities			
Profit for the year		3,735	3,120
Net finance income	9,10	8	(437)
Depreciation and impairment of property, plant and equipment	6	3,926	3,387
Loss/(Profit) on disposal of property, plant and equipment		758	(3)
Difference between pension contributions paid and amounts recognised in the statement of comprehensive income		14	(343)
(Increase) in inventories		(725)	(61)
(Increase) in trade and other receivables		(6,544)	(2,077)
Increase in trade and other payables		1,842	2,880
		<hr/>	<hr/>
Net cash generated from operating activities		3,014	6,466
Cash flows from investing activities			
Interest received		13	13
Purchase of property, plant and equipment		(4,814)	(6,928)
Proceeds on disposal of property, plant and equipment		880	57
Purchase of financial instruments		197	(73)
		<hr/>	<hr/>
Net cash flows used in investing activities		(3,724)	(6,931)
Cash flows from financing activities			
Interest paid		(347)	(222)
Payments made for obligations under finance leases		(790)	(286)
Decrease in borrowings		-	-
		<hr/>	<hr/>
Net cash flows used in financing activities		(1,137)	(508)
Net (decrease) in cash and cash equivalents			
		<hr/>	<hr/>
Cash and cash equivalents at beginning of year		6,907	7,880
		<hr/>	<hr/>
Cash and cash equivalents at end of year		5,060	6,907
Non-cash transactions			
Purchase of assets under finance leases		(2,211)	-
		<hr/>	<hr/>
Significant non-cash transactions		(2,211)	-
		<hr/>	<hr/>

**Statement of changes in equity
for the year ended 31 March 2013**

	Share capital £000	Retained earnings £000	Total £000
Balance at 31 March 2011	-	19,341	19,341
Total comprehensive income for the year	-	2,131	2,131
Balance at 31 March 2012	-	21,472	21,472
Total comprehensive income for the year	-	2,068	2,068
Balance at 31 March 2013	-	23,540	23,540

Retained earnings are used to record the profit or loss arising from the statement of comprehensive income

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

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Direct Rail Services Limited for the year ended 31 March 2013 were authorised for issue by the Board of directors on December 9, 2013 and the statement of financial position was signed on the Board's behalf by N McNicholas

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 March 2013

2. General information

The Company is a limited company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 3 to 5.

The immediate parent undertaking is the Nuclear Decommissioning Authority ('NDA'). The consolidated financial statements of the NDA are available to the public and may be obtained from its headquarters at Herdus House, Westlakes Science & Technology Park, Moor Row, Cumbria, CA24 3HU. In the Directors' opinion, the Company's ultimate controlling party is Her Majesty's Government.

These financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

3. Statement of accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 March 2013 and applied in accordance with the Companies Act 2006. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year end 31 March 2013.

Changes in accounting policies

The accounting policies adopted are consistent with those of previous years except as described below. The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 April 2012 unless otherwise stated:

- IFRS 7 Financial Instruments (amended) - Disclosures Offsetting Financial Assets and Financial Liabilities
- IAS 12 Income Taxes (Amendment) – Deferred Taxes Recovery of Underlying Assets
- IFRS 1 (amended) Severe Hyperinflation and removal of fixed dates for first time adopters
- IAS 1 – Presentation of Items of Other Comprehensive Income

The new or amended IFRS and IFRIC interpretations adopted in the period are not considered to have had a significant impact on the financial statements or performance of the Company.

3. Statement of accounting policies (continued)

Adoption of new and revised Standards (continued)

At the date of authorisation of these financial statements, the following IFRS and IFRIC Interpretations, which have not been applied in these financial statements, were in issue but not effective (and in some cases have not yet been adopted by the EU)

International Accounting Standards (IAS/IFRSs)		Effective date
IAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19	Employee Benefits (revised)	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 1	Government Loans	1 January 2013
IFRS 7	Disclosures Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 9	Financial Instruments Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company

Revenue recognition

Revenue is recognised to the extent that the Company obtains the right to considerations in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, or other sales taxes or duty. Income received in advance of work performed is held on the statement of financial position (under trade and other payables as payments received on account) and released to the statement of comprehensive net expenditure when the work is completed and the liability extinguished.

Where the outcome of a contract can be estimated reliably, income and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

Government grants

Grants of a revenue nature are credited to revenue so as to match them with the expenditure to which they relate.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a creditor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3. Statement of accounting policies (continued)

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates of exchange prevailing on the reporting date. Exchange differences are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

The Company participates in the GPS Pension Scheme (formerly the BNFL Group Pension Scheme) and provides the scheme for the benefit of all of its employees. The scheme is a defined benefit pension scheme that is funded by contributions partly from the employees and partly from the Company. The Scheme requires contributions to be made to a separately administered fund.

The contributions to the fund are based on independent actuarial valuations designed to secure the benefits as set out in the rules. The assets are measured using market values whilst the liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in operating costs to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The interest cost and the expected return on assets are shown as a net amount of finance costs.

Pension scheme assets are recognised to the extent that they are recoverable and pension scheme liabilities are recognised to the extent that they reflect a constructive or legal obligation.

The Company also participates in the defined contribution structure of the GPS Pension Scheme. The Scheme requires contributions to be made to a separately administered fund.

Long-Term Incentive Plan

DRS executive directors participate in a Long-Term Incentive Plan (LTIP), which allows participants to receive a bonus, payment of which will take place over a period of two to four years from the end of the relevant accounting period, providing the participant remains in employment. The LTIP is accounted for in accordance with IAS19, with the cost of the bonus being charged to the income statement over the vesting period.

Taxation

The tax expense, if any, represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Statement of accounting policies (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of the assets, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold land and buildings	-	2% - 10% straight line
Plant & machinery	-	7% - 10% straight line
Fixtures, fittings, tools and equipment	-	20% - 33% straight line

Assets in the course of construction are not depreciated until complete and brought into use by the Company. Residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Inventories

Inventories, including spares, are stated at the lower of cost and net realisable value. Spares are not considered rotatable spares as they can be used across different traction types. Cost comprises direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and all costs to be incurred in marketing, selling and distribution. Where necessary, provision is made for obsolete, slow moving and defective inventory.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Statement of accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument

Financial assets

Financial assets are classified as either financial assets 'at fair value through profit or loss' (FVTPL) or loans and receivables. Financial assets are initially recognised at fair value plus transaction costs, except for those assets classified as at fair value through profit or loss, which are initially recognised at fair value (transaction costs are expensed in operating costs)

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future or it is a derivative that is not designated and effective as a hedging instrument. A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Trade and other receivables, and cash and cash equivalents, that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest revenue is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest revenue over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying value of the financial asset.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3. Statement of accounting policies (continued)

Financial instruments (continued)

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' (FVTPL) or other financial liabilities

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument. A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including trade and other payables and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying value of the financial liability.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled or they expire.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value, with changes in fair value recognised in profit or loss.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that management has made in the process of applying the Company's accounting policies and that would have a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated useful lives and impairment of property, plant and equipment

Property, plant and equipment is depreciated over the estimated useful lives of the underlying assets. Estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date. Impairment is measured by comparing the carrying value of the asset or cash-generating unit with its recoverable amount. All assets are reviewed for evidence of impairment. Given the age of the assets this calculation has a degree of uncertainty within it. The carrying amount of property, plant and equipment at the reporting date was £22,149,000.

Retirement benefit obligations

The nature of the process for valuing retirement benefit obligations for defined benefit schemes means that the calculations and the resulting surplus or deficit are estimates only. The defined benefit pension scheme deficit at the reporting date was £1,355,000 (2012 surplus £2,422,000). Under IFRIC 14, the Company does not have an unconditional right to recover this surplus and consequently the surplus was not recognised as an asset. However, the Company is recognising the deficit in the financial statements this year, ahead of a formal actuarial valuation of the pension scheme in 2013/14, as it is prudent to do so.

5. Revenue

Revenue, which is stated net of value added tax, represents amounts receivable for services supplied to third parties. Revenue is attributable to one continuing activity, the provision of UK rail services.

Grant revenue is included within revenue and relates to grants received from the Department for Transport and the Scottish Government, which provide an incentive for the movement of traffic from road to rail. The revenue is accrued on the basis of tonnes and distance of commodity transported by rail.

	2013 £000	2012 £000
Sales revenue - all UK based		
Railway services	51,428	45,077
Non-railway services	7,781	4,464
	59,209	49,541
Government grant revenue - all UK based	805	702
	60,014	50,243

6. Net operating costs and expenses

	2013	2012
	£000	£000
Net operating costs and expenses include		
Employee costs (see note 7)	17,543	16,961
Depreciation of property, plant and equipment (see note 12)	3,917	3,422
Impairment of property, plant and equipment (see note 12)	9	-
Reversal of impairment of property, plant and equipment (see note 12)	-	(35)
Loss/(Profit) on disposal of property, plant and equipment	758	(3)
Auditors' remuneration		
- in respect of statutory audit of the Company	24	24
- in respect of the audit of grant claims	4	4
Operating lease rentals		
- land and buildings	262	244
- plant and machinery	5,376	5,477
- motor vehicles	268	251
Cost of inventories recognised as an expense	9,920	8,411
Write down of inventories recognised as an expense	270	-
Other external and operating charges	17,920	12,804
	56,271	47,560

Other external and operating charges

Included in 'Other external and operating charges' is an amount of £595,000 received from a key supplier in relation to efficiency gains

Loss/(profit) on disposal of property, plant and equipment

A strategic decision was made by the Company to procure a more modern locomotive due for delivery in 2013/14. In tandem with this decision, a fleet strategy review was conducted on all existing locomotives against operational needs and it was decided that certain heritage fleet locomotives were surplus to the Company's needs in order to support the business.

In total, the Company disposed of 14 locomotives from its heritage fleet, and where possible the disposal locomotives acted as donors for components on the remaining heritage fleet. The net loss on disposal was £758,000.

Write down of inventories recognised as an expense

In disposing of the heritage fleet locomotives, as described above, the Company also made a provision against stock deemed to be in excess of future operational and maintenance requirements in relation to the heritage fleet.

7. Employee information (including Executive Directors)

The average weekly number of employees during the year was as follows	2013 Number	2012 Number
Operations	193	184
Administration	111	106
	<u>304</u>	<u>290</u>
	£000	£000
Employee costs during the year were as follows		
Wages and salaries	13,750	13,262
Social security costs	1,288	1,210
Pension costs	2,505	2,489
	<u>17,543</u>	<u>16,961</u>

Included within pension costs are £2,241,000 (2012 £2,370,000) in respect of the defined benefit pension scheme

8. Directors' emoluments

	2013 £000	2012 £000
Aggregate emoluments	405	447
Aggregate amounts receivable under long term incentive plans	51	34
Other emoluments (including pensions)	313	296
	<u>769</u>	<u>777</u>

Retirement benefits are accruing to 3 Directors (2012 2) under a defined benefit scheme

The aggregate emoluments for the highest paid director are £185,322 (2012 £196,317) The accrued pension for the highest paid director is £182,362 (2012 £173,044)

With effect from 1 April 2009, DRS executive directors participate in a Long-Term Incentive Plan (LTIP), which allows the participants to receive a bonus, payment which will take place over a period of two to four years from the end of the relevant accounting period, providing the participant remains in employment. The amount of LTIP that is deferred to future accounting periods is £78,469 (2012 £65,441)

9. Finance income

	2013 £000	2012 £000
Net finance income on defined benefit pension scheme (note 27)	326	646
Bank interest	13	13
	<u>339</u>	<u>659</u>

10. Finance costs

	2013	2012
	£000	£000
Interest on loan due to immediate parent undertaking	113	113
Interest on obligations under finance leases	232	94
Other interest charges	5	5
	350	212
Net (profit)/loss on financial assets and financial liabilities measured at fair value through profit and loss	(3)	10
Total finance costs	347	222

11. Taxation

The explanation for the tax charge in the year is set out below		
	2013	2012
	£000	£000
Profit before tax	3,735	3,120
Profit before tax at UK standard rate of 24% (2012 26%)	896	811
Effects of		
Expenses not (allowable)/ deductible for tax purposes	(253)	(244)
Depreciation for period in excess of capital allowances	940	889
Other short term timing differences	(35)	(7)
Group relief received for nil payment	(1,548)	(1,449)
Actual tax for the year	-	-

It is anticipated that any taxable profits in Direct Rail Services Limited in the foreseeable future will be offset using NDA group losses. There is no current or deferred tax charge or credit for the year. The Company has an unrecognised deferred tax asset in the amount of £5,701,000 (2012 £5,284,000).

However, if Group relief was not made available to the Company in subsequent periods, the following would apply:

At the balance sheet date, legislation had been substantively enacted which would reduce the main rate of UK corporation tax from 26% to 23% with effect from 1 April 2013. Further reductions to the main rate of corporation tax were also announced in the March 2013 UK Budget Statement to reduce the rate to 21% by 1 April 2014, and to 20% from 1 April 2015. The reductions to 21% and then to 20% are expected to be enacted through the passing of Finance Act 2013 in July 2013.

As at 31 March 2013, the reduction in the rate to 23% had been 'substantively enacted' through Finance Act 2012. The effect of the proposed changes to the UK tax system will be reflected in the financial statements of the company in future years as appropriate, once the proposals have been substantively enacted.

12. Property, plant and equipment

	Leasehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Assets in the course of construction £000	Total £000
Cost					
At 1 April 2011	4,765	32,648	1,134	1,498	40,045
Additions	-	-	-	6,928	6,928
Transfers	(5)	4,865	70	(4,930)	-
Disposals	(60)	(6)	(2)	(21)	(89)
At 1 April 2012	4,700	37,507	1,202	3,475	46,884
Additions	-	2,579	-	4,812	7,391
Transfers	274	3,765	72	(4,111)	-
Disposals	-	(7,390)	(56)	(14)	(7,460)
At 31 March 2013	4,974	36,461	1,218	4,162	46,815
Depreciation and impairment					
At 1 April 2011	2,463	19,349	1,032	-	22,844
Charge for the year	235	3,112	75	-	3,422
Reversal of impairment	(35)	-	-	-	(35)
Disposals	(30)	(3)	(2)	-	(35)
At 1 April 2012	2,633	22,458	1,105	-	26,196
Charge for the year	222	3,635	60	-	3,917
Impairment charge	-	9	-	-	9
Disposals	-	(5,400)	(56)	-	(5,456)
At 31 March 2013	2,855	20,702	1,109	-	24,666
Carrying amount					
At 31 March 2013	2,119	15,759	109	4,162	22,149
At 1 April 2012	2,067	15,049	97	3,475	20,688

The Company's obligations under finance leases are secured by the lessor's title to the leased assets. Assets held under finance leases and capitalised in plant & machinery have a carrying amount as follows

	2013 £000	2012 £000
Cost	3,944	1,732
Aggregate depreciation	(1,598)	(1,172)
Carrying amount	2,346	560

13. Inventories

	2013 £000	2012 £000
Raw materials, spares & consumables	3,048	2,323

14. Financial instruments by category

The accounting classification of each category of financial instruments, and their carrying values, is set out below

	2013 £000	2012 £000
Financial assets – fair value through profit or loss:		
Derivatives not designated as hedges		
Foreign exchange forward contracts (note 15)	61	73
	<u>61</u>	<u>73</u>
Financial assets – loans and receivables:		
Trade and other receivables excluding prepayments (note 17)	14,140	7,708
Cash and cash equivalents	5,060	6,907
	<u>19,200</u>	<u>14,615</u>
Trade and other receivables excluding prepayments is summarised as follows.		
Trade receivables excluding prepayments due within one year (note 17)	14,140	5,852
Trade receivables excluding prepayments due greater than one year (note 18)	-	1,856
	<u>14,140</u>	<u>7,708</u>
Financial liabilities – other financial liabilities:		
Current obligations under finance leases	1,174	379
Current trade and other payables excluding payments received on account and other taxes and social security costs (note 21)	9,407	7,930
Non-current obligations under finance leases	988	362
Non-current borrowings	7,000	7,000
	<u>18,569</u>	<u>15,671</u>
Financial liabilities – fair value through profit or loss:		
Derivatives not designated as hedges		
Foreign exchange forward contracts (note 16)	185	-
	<u>185</u>	<u>-</u>

14. Financial instruments by category (continued)

- (a) Prepayments are excluded as this analysis is required only for financial instruments
- (b) Payments received on account and other taxes and social security costs are excluded as this analysis is required only for financial instruments

Generally, financial assets and financial liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Company in undertaking its activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which profit and losses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3. The fair value of financial instruments represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The directors consider that the carrying amount of loans and receivables and other financial liabilities approximates their fair value.

15. Financial assets

	2013	2012
	£000	£000
Non-current:		
Forward currency derivative contracts	-	73
	<hr/>	<hr/>
Current:		
Forward currency derivative contracts	61	-
	<hr/>	<hr/>

The Company is exposed to foreign currency risk through its operations as certain transactions are denominated in foreign currencies, primarily the Euro. The Company manages the exposure by implementing a policy of purchasing forward foreign currency. A forward foreign exchange contract is held in relation to purchases of various components. As at the reporting date, the Company held derivative financial assets with a value of £60,906 (2012: £73,141).

16. Financial liabilities

	2013	2012
	£000	£000
Current:		
Forward currency derivative contracts	185	-
	<hr/>	<hr/>

The Company is exposed to foreign currency risk through its operations as certain transactions are denominated in foreign currencies, primarily the Euro. The Company manages the exposure by implementing a policy of purchasing forward foreign currency. A forward foreign exchange contract is held in relation to purchases of various components. As at the reporting date, the Company held derivative financial liabilities with a value of £184,963 (2012: £Nil).

17. Trade and other receivables

	2013	2012
	£000	£000
Current:		
Trade receivables	6,831	4,522
Provision for Bad Debts	-	(78)
	6,831	4,444
Accrued income	1,653	1,261
Other receivables	5,656	147
	14,140	5,852
Prepayments	755	643
	14,895	6,495

Trade receivables are non-interest-bearing and are generally on 30-60 day terms. Average trade receivable collectible days were 42 days (2012 32 days)

As at 31 March 2013, the directors have made no provision for bad debts (2012 £78,027) but considered the risk of non-payment of other receivables to be remote, and accordingly, no other trade receivables were impaired or provided for

The movement on the bad debt provision are shown as follows

Trade and other receivables

	2013	2012
	£000	£000
At 1 April	78	-
Charge for the year	-	78
Release of provision to income statement	(78)	-
At 31 March	-	78

As at 31 March 2013, the ageing of trade receivables is as follows

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 Days	>120 Days
	£000	£000	£000	£000	£000	£000	£000
2013	6,831	4,156	1,260	863	552	-	-
2012	4,444	3,371	805	248	20	-	-

18. Receivables greater than one year

	2013	2012
	£000	£000
Other debtors	-	1,856

Other debtors represent amounts paid as a refundable deposit to a supplier and is due to be repaid to the company in October 2013

19. Cash and cash equivalents

	2013	2012
	£000	£000
Cash and cash equivalents	5,060	6,907

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The Company has an undrawn borrowing facility of £1,000,000 (2012 £1,000,000)

20. Obligations under finance leases

Minimum lease payments

	2013	2012
	£000	£000
Amounts payable under finance leases		
Not later than one year	1,360	379
Later than one year and not later than five years	1,046	442
	2,406	821
Less future finance charges	(244)	(80)
Present value of lease obligations	2,162	741
Less amount due for settlement within twelve months (shown under current liabilities)	(1,174)	(379)
Amount due for settlement after 12 months (shown under non-current liabilities)	988	362

For the year ended 31 March 2013, the average effective borrowing rate was 3.4% (2012 7.5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

21. Trade and other payables

	2013 £000	2012 £000
Current:		
Trade payables	3,669	4,052
General accruals	3,190	2,565
Other payables	2,548	1,313
	<hr/>	<hr/>
Other taxes and social security costs	9,407	7,930
	1,564	1,199
	<hr/>	<hr/>
	10,971	9,129
	<hr/>	<hr/>

Trade payables and general accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases during the year is 40 days (2012 56 days). For most suppliers no interest is charged on the trade payables for the first 45 days from the date of invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

22. Borrowings

	2013 £000	2012 £000
Loan due to immediate parent undertaking repayable		
Not later than one year	-	-
Later than one year and not later than five years	7,000	7,000
	<hr/>	<hr/>
	7,000	7,000
Less amount due for repayment within twelve months (shown under current liabilities)	-	-
	<hr/>	<hr/>
Amount due for repayment after 12 months (shown under non-current liabilities)	7,000	7,000
	<hr/>	<hr/>

The loan is interest bearing at a fixed percentage amount above the Bank of England base rate, and is repayable on or after 30 September 2016.

23. Share capital

	2013 £	2012 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
1 ordinary share of £1	1	1
	<hr/>	<hr/>

24. Financial risk management

Capital risk

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from the previous year. The capital structure of the Company consists of debt, which includes borrowings disclosed in note 22, cash and cash equivalents and equity attributable to the immediate parent, comprising issued capital and reserves.

Gearing ratio

The Company does not have a target gearing ratio (the proportion of net debt to equity). The Company and its immediate parent undertaking review the capital structure of the Company on a regular basis.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is primarily exposed to foreign currency risk and interest rate risk although the directors do not consider these risk exposures to be material.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are £5,630,125 (2012 £1,856,000).

The effect of a 5% strengthening of the Sterling against Euro at the reporting date on the Euro-denominated receivables carried at that date would, all other variables held constant, have resulted in a decrease in post-tax profit for the year and decrease of net assets of £264,012 (2012 £88,363). A 5% weakening in the exchange rate would, on the same basis, have increased post-tax profit and increased net assets by £300,842 (2012 £97,664).

The effect of fluctuations in exchange rates on the Euro-denominated receivables is partially offset through the use of forward exchange contracts. The effect of a 5% strengthening of the Sterling against Euro at the reporting date on the forward currency swaps carried at that date would, all other variables held constant, have resulted in an increase in post-tax profit for the year and net assets of £271,479 (2012 £89,097). A 5% weakening in the exchange rate would, on the same basis, have decreased post-tax profit and decreased net assets by £300,056 (2012 £98,476).

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to borrowings disclosed in note 22.

Borrowings, excluding finance leases, relate entirely to a loan due to the Company's immediate parent undertaking. If Bank of England base rate had been 0.5% higher and all other variables were held constant, the Company's

- * profit for the financial year ended 31 March 2013 would decrease by £35,000 (2012 £35,000), and
- * total equity would decrease by £35,000 (2012 £35,000)

Liquidity risk

Liquidity risk (also referred to as funding risk) is the risk that an entity will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. The Company is primarily financed through its commercial revenue although it always has the option to apply for increased funding from its immediate parent.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The directors consider the risk of contractual default to be remote and accordingly the Company's exposure to credit risk is low.

25 Capital expenditure authorised

	2013	2012
	£000	£000
Contracted for but not provided for	7,401	1,477

26 Operating lease commitments

The total minimum future commitments under non-cancellable operating leases are as follows -

Operating leases which expire	Land & Buildings		Other	
	2013	2012	2013	2012
	£000	£000	£000	£000
Not later than one year	237	219	3,109	3,894
Later than one year and not later than five years	72	75	17,723	3,345
Later than five years	199	30	3,840	-
	508	324	24,672	7,239

Operating lease payments represent rentals payable by the Company for certain parts of its office and other operating equipment. The majority of leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years with an option to extend for a further 2 years at the then prevailing market rate.

27. Retirement benefit schemes

In the prior years, the Company participated in the GPS Pension Scheme (formerly called the BNFL Group Pension Scheme). From 1 April 2012 the assets and liabilities of the GPS Pension Scheme have been transferred to the Civil Nuclear Pension Plan (CNPP). The CNPP is a funded defined benefit scheme. The defined benefit structure of the company's pension arrangements was closed to new entrants on 1 April 2008 and a defined contribution structure made available for all new employees from that date.

The Nuclear Decommissioning Authority, the company's parent, is the principal employer to the GPS Pension Scheme.

The last triennial actuarial valuation took place as part of the GPS Pension Scheme as of 31 March 2010. The Company is contributing to the CNPP, in respect of defined benefit members, at a rate of 24.1% of pensionable salaries, as recommended by the scheme's independent actuaries.

A full actuarial valuation was carried out at 31 March 2011 using the projected unit method and updated approximately to 31 March 2012 and 31 March 2013 by a qualified independent actuary. A valuation of the Scheme as at 31 March 2013 has been calculated by a qualified actuary under the revised (2011) IAS 19. A full triennial actuarial valuation took place in mid-2013 with the valuation using 31 March 2013 as a basis.

The assumptions have been set by the directors of the parent company, Nuclear Decommissioning Authority.

27. Retirement benefit schemes (continued)

The major assumptions used were

	31 March 2013	31 March 2012
Rate of increase in salaries	3.40%	3.75%
Rate of increase in pensions in payment	3.40%	3.25%
Discount rate	4.25%	4.8%
Inflation assumption (RPI)	3.40%	3.25%
Mortality	SAPS CMI 10 projection, 1.0% trend (males) 0.5% trend (females)	SAPS CMI 10 projection, 1.0% trend (males) 0.5% trend (females)
Post-retirement mortality (in years)		
Current pensioner at 65 – male	22.1	22.0
Future pensioner at 65 (now 45) – male	23.4	23.4

Other assumptions are the same as those used in the latest actuarial valuation for the DRS section

The bid value of the assets in the Scheme, the present value of the liabilities in the Scheme and the expected rate of return at the balance sheet date were

	31 March 2013 £000	31 March 2012 %pa	31 March 2012 £000
Equities	18,510	7.1	14,880
Property	2,342	6.1	2,272
Fixed Interest Gilts	-	n/a	-
Index Linked Gilts	11,952	3.10	9,745
Corporate Bonds	11,441	4.80	9,802
Other	152	2.00	153
Total fair value of the assets	44,397	5.35	36,852
Present value of Scheme liabilities (Deficit)/surplus in the Scheme	45,752 (1,355)		34,430 2,422
Net pension (deficit)/surplus before restriction	(1,355)		2,422
Restriction on surplus	-		(2,422)
Net pension (deficit)/surplus before restriction	(1,355)		-

27. Retirement benefit schemes (continued)

The Company employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return of each asset class over the actual asset allocation at the start of the year.

	31 March 2013 £000	31 March 2012 £000
Actual return on Scheme Assets	4,999	2,673
Reconciliation of liabilities:	31 March 2013 £000	31 March 2012 £000
Liability at start of period	34,430	26,004
Current service cost	2,262	2,036
Employee contributions	483	510
Interest cost	1,713	1,493
Actuarial loss	7,049	4,625
Benefits paid	(185)	(238)
Liability at end of period	45,752	34,430
Reconciliation of Assets:	31 March 2013 £000	31 March 2012 £000
Assets at start of period	36,852	31,528
Expected return on assets	2,039	2,139
Contributions paid by employer	2,248	2,379
Employee contributions	483	510
Actuarial gain	2,960	534
Benefits paid	(185)	(238)
Assets at the end of the period	44,397	36,852
Analysis of profit and loss charge:	31 March 2013 £000	31 March 2012 £000
Current service cost	2,262	2,036
Expected return on Scheme assets	(2,039)	(2,139)
Interest on Scheme liabilities	1,713	1,493
Total profit and loss charge	1,936	1,390

27. Retirement benefit schemes (continued)

Analysis of amount recognised in Statement of Comprehensive Income (SOI)

	31 March 2013 £000	31 March 2012 £000
Total actuarial (losses)	(4,089)	(4,091)
Cumulative amount of (losses) recognised	(4,322)	(233)

A 0.5% increase or decrease in the assumptions stated below would have the following effects on the defined benefit obligation

	Increase	Decrease
Discount rate	(14%)	16%
Rate of salary increase	8%	(8%)
Rate of price inflation	16%	(14%)
Rate of mortality (increase by one year)	2%	-%

	31 March 2013 £000	31 March 2012 £000	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Experience gains and (losses) on Scheme Assets	2,960	534	(19)	4,818	(3,133)
Experience gains and (losses) on Scheme Liabilities	43	(212)	994	-	-

Contributions are also made by some employees to a group defined contribution scheme amounting to £28,000 (2012 £119,000)

The total Company pension costs for the year were £2,369,000 (2012 £2,449,000)

The balance of pension scheme contributions outstanding at the year end was £222,916 (2012 £231,446)

The total contributions to the defined benefit scheme in 2013/2014 are expected to be £2,308,000 for the company

28. Related party transactions

In the course of its normal business the Company enters into transactions with Government owned banks, Government Departments and other central Government bodies on an arms' length basis

Trading transactions

Transactions between the Company and the NDA and other NDA group companies were as follows

	Sale of goods & services		Purchase of goods & services		Amounts owed by related parties		Amounts owed to related parties	
	2013	2012	2013	2012	2013	2012	2013	2012
	£000	£000	£000	£000	£000	£000	£000	£000
NDA	1,952	-	-	-	1,226	-	7,000	7,000
International Nuclear Services Limited	14,375	13,918	-	-	49	49	-	-
NDA Properties Limited	-	-	103	71	-	-	1	1

Key management compensation

Key management includes directors (executive and non-executive), and other senior executives. The compensation paid or payable to key management for employee services is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in note 8

	2013 £000	2012 £000
Short term employee benefits	750	758
Post-employment benefits	126	124
Other long-term benefits	70	57
	946	939

With effect from 1 April 2009, DRS key management participate in a Long-Term Incentive Plan (LTIP), which allows participants to receive a bonus, payment of which will take place over a period of two to four years from the end of the relevant accounting period, providing the participant remains in employment

The amount of LTIP that is deferred to future accounting periods is £181,970 (2012 £103,500)

29. Post balance sheet events

Subsequent to the balance sheet date, the Company has secured a Commercial Mortgage facility for £8,990,000 in order to finance the purchase of SL45 Lowliner Wagons. This facility is payable over 36 months at a headline interest rate of 3.79%