Direct Rail Services Limited

Registered No. 3020822

Direct Rail Services

safe secure reliable

Annual Report and Accounts

2013/2014

DIRECTORS

A Moore	(Chairman)	
S Johnston	(Non Executive Director)	
M Liefeith	(Non Executive Director)	
J McLaughlin	(Non Executive Director)	Resigned 27/01/14
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

Barclays Bank
33 English Street
Carlisle
Cumbria.
CA3 8JX

REGISTERED OFFICE

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

Strategic Report

Business Model

The core mission of DRS in relation its shareholder, the Nuclear Decommissioning Authority (NDA), is the provision of rail transport services for the UK nuclear estate. The safe, secure and reliable delivery of this business is central to the achievement of NDA's decommissioning strategy. DRS is a wholly-owned subsidiary company of NDA and operates 'arms-length' commercial contracts with all nuclear based customers including NDA, Low Level Waste Repository Ltd, Sellafield Ltd, Dounreay Sites Restoration Ltd, Research Sites Restoration Ltd, Magnox Ltd and EdF.

Business Strategy

Flexible service with industry-leading innovation and efficiencies by DRS enables the demanding delivery and performance requirements of the nuclear estate to be met. DRS aims to be the safest and best performing Freight Operating Company and the supplier of choice to the nuclear estate. Building on its existing reputation as the UK specialist provider in transportation to support the nuclear industry DRS has extended its business to become the recognised leader in the UK for all "critical supply" rail transportation without public subsidy. The company has built a strong strategic portfolio of long-term value-adding contracts in the Domestic & Port Intermodal, Major Infrastructure and Passenger Train Operating Company market sectors.

Business Performance

The level of business has increased over the previous year and the Company has continued to expand its customer base in existing business sectors on a fully commercial basis, despite the recent economic 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 earning the Golden Whistle Award for the second time. The Directors expect the Company's operations to expand in the foreseeable future.

Key Performance Indicators

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 a high level of performance has been achieved throughout the year.

Neil McNicholas

On behalf of the Board
N McNicholas, Managing Director
Date 22/12/14

Directors' report

The Directors present their report and the audited financial statements of the company for the year ended 31 March 2014.

Directors

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

A Moore	(Chairman)	
S Johnston	(Non Executive Director)	
M Liefeith	(Non Executive Director)	
J McLaughlin	(Non Executive Director)	Resigned 27/01/14
J Bamforth	(Finance and Resources Director)	
C Connelly	(Commercial Director)	
N McNicholas	(Managing Director)	

Results and dividends

The profit for the year, after taxation, amounted to £2,671,000 (2013: £3,525,000). The Directors do not recommend a final dividend.

The business results relating to the current year are described below.

	2014 £000	**2013 £000**
Revenue	64,855	60,014
Operating Profit	3,233	3,743
Profit Before Tax	2,671	3,525
Net Return on Sales	5.0%	6.2%

Directors' report (continued)

Financial risk management

In addition to the effects of the recent 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 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 23 to the financial statements.

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.

Charitable donations

As part of the Company's commitment to the community in which it operates, contributions totalling £5,875 (2013: £9,279) were made during the year. In particular, contributions totalling £1,405 (2013: £1,008) were made to Eden Valley Hospice (registered charity 1008796).

Directors' report (continued)

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 ofthe 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.

DRS has in place a Quality Assurance framework for the classification, specification, development and assurance of all business critical models. These procedures have been reviewed during the year to ensure they remain appropriate and are in line with the 2013 Macpherson Review recommendations which apply to all Government departments and their arm's length bodies, including NDA and its subsidiaries.

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.

Neil McNicholas

On behalf of the Board
N McNicholas, Managing Director
Date 22/12/14

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 2014 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 27. 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 6, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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 2014 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.

Ernst & Young LLP

Julian Yates (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
Date 24 December 2014

Statement of comprehensive income
for the year ended 31 March 2014

	Notes	**2014** £000	2013 Restated £000
Revenue	5	**64,855**	60,014
Net operating costs and expenses	6	**(61,622)**	(56,271)
Operating profit		**3,233**	3,743
Finance income	9	**76**	129
Finance costs	10	**(638)**	(347)
Profit before tax		**2,671**	3,525
Tax	11	-	-
Profit for the financial year		**2,671**	3,525
Other comprehensive income:			
Recognition of deficit on defined benefit pension Plan	26	-	(1,355)
Actuarial gain / (loss) on defined benefit pension Plan	26	**5,416**	(102)
Restriction on surplus in defined benefit pension Plan	26	**(3,506)**	-
Total comprehensive income for the year		**4,581**	2,068

All amounts derive from continuing operations.

Statement of financial position
as at 31 March 2014

	Notes	2014 £000	2013 £000
Non-current assets			
Property, plant and equipment	12	**28,639**	22,149
		28,639	22,149
Current assets			
Inventories	13	**4,072**	3,048
Trade and other receivables	17	**16,765**	14,895
Other current financial assets	15	**162**	61
Cash and cash equivalents	18	**10,244**	5,060
		31,243	23,064
Total assets		**59,882**	45,213
Current liabilities			
Obligations under finance leases	19	**(988)**	(1,174)
Trade and other payables	20	**(15,554)**	(10,971)
Borrowings	21	**(1,616)**	-
Other current financial liabilities	16	-	(185)
		(18,158)	(12,330)
Non-current assets plus net current assets		**41,724**	32,883
Non-current liabilities			
Obligations under finance leases	19	-	(988)
Borrowings	21	**(13,603)**	(7,000)
Employee benefit liability	26	-	(1,355)
		(13,603)	(9,343)
Net assets		**28,121**	23,540
Equity			
Share capital	22	-	-
Retained earnings		**28,121**	23,540
Total equity		**28,121**	23,540

The financial statements on pages 8 to 34 were approved by the board of directors and were signed on its behalf by: -

N McNicholas,
Managing Director
Date 22/12/14
Company Registered Number: 3020822

Statement of cash flows
as at 31 March 2014

	Notes	2014 £000	2013 Restated £000
Cash flows from operating activities			
Profit for the year		**2,671**	3,525
Net finance (cost) / income	9,10	**562**	218
Depreciation and impairment of property, plant and equipment	6	**3,921**	3,926
Loss on disposal of property, plant and equipment		**99**	758
Difference between pension contributions paid and amounts recognised in the statement of comprehensive income		**545**	14
Increase in inventories		**(1,024)**	(725)
Increase in trade and other receivables		**(1,971)**	(6,544)
Increase in trade and other payables		**4,398**	1,842
Net cash generated from operating activities		**9,201**	3,014
Cash flows from investing activities			
Interest received		**76**	13
Purchase of property, plant and equipment		**(10,844)**	(4,814)
Proceeds on disposal of property, plant and equipment		**334**	880
Purchase of financial instruments		**-**	197
Net cash flows used in investing activities		**(10,434)**	(3,724)
Cash flows from financing activities			
Interest paid		**(628)**	(347)
Payments made for obligations under finance leases		**(1,174)**	(790)
Increase in borrowings		**8,990**	-
Payments made under loan agreements		**(771)**	
Net cash flows used in financing activities		**6,417**	(1,137)
Net increase(decrease) in cash and cash equivalents		**5,184**	(1,847)
Cash and cash equivalents at beginning of year		**5,060**	6,907
Cash and cash equivalents at end of year		**10,244**	5,060

	2014 £000	2013 Restated £000
Non-cash transactions		
Purchase of assets under finance leases	-	(2,211)
Significant non-cash transactions	-	(2,211)

Statement of changes in equity
for the year ended 31 March 2014

	Share capital £000	Retained earnings £000	Total £000
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**
Total comprehensive income for the year	-	4,581	4,581
Balance at 31 March 2014	-	**28,121**	**28,121**

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 2014

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 2014 were authorised for issue by Neil McNicholas on 22 December 2014.

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 2014.

2. General information

The Company is a limited company incorporated and dominciled 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 4 to 6.

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 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

There have been no accounting policy changes in the financial year ended 31 March 2014.

New Standards and interpretations not applied
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below and have not been adopted by the Company.

This listing of standards and interpretations issued are those that the Company reasonablly expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosures of Interests in Other Entities
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures

3. Statement of accounting policies (continued)

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 Civil Nuclear Pension Plan (CNPP and 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 CNPP. 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 rotable 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.

Changes in accounting policies

IAS 19 Employee Benefits (Revised)

The revision to IAS 19(R), eliminates the corridor approach and requires recognition of all actuarial gains and losses in the statement of comprehensive income immediately. The revision also replaces the expected return on assets and interest costs on the defined benefit obligation with a single interest component, based on the discount rate. Past service costs will be recognised in full in the period of the plan amendment. The revision to IAS 19(R) also changes the requirements for termination benefits and includes enhanced presentation and disclosure requirements.

Changes in accounting policies (continued)

The impact of adopting this revision is as follows:

Impact on the group income statement and group statement of comprehensive income:

	2013
	£
Income statement	
Administrative expense	-
Interest income	(210,000)
Loss before tax	(210,000)
Taxation	–
Loss after tax	(210,000)
Statement of comprehensive income	
Actuarial gains	210,000
Taxation	–
Other comprehensive income, net of tax	210,000

There is no impact on the statement of cash flows other than consequential changes to figures within the reconciliation of net cash generated from operating activities. These changes have no net impact on the total cash flow from operating activities.

Note 26 reflects consequential changes to the disclosures relating to defined benefit obligations and the fair value of plan assets.

As a result of tax losses available to the entity, there is no overall impact on the tax charge and there is no impact on the statement of financial position as a result of implementation of the revised standard.

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.

<u>Estimated useful lives and impairment of property, plant and equipment</u>
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 £28,763,000.

<u>Retirement benefit obligations</u>
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 £Nil (2013: deficit of £1,355,000). Under IFRIC 14, the Company does not have an unconditional right to recover this surplus and consequently the surplus is not recognised as an asset.

5. Revenue

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

	2014	2013
	£000	£000
Sales revenue - all UK based		
Railway services	**59,604**	51,428
Associated railway services	**4,446**	7,781
	64,050	59.209
Government grant revenue - all UK based	**805**	805
	64,855	60,014

6. Net operating costs and expenses

	2014 £000	2013 £000
Net operating costs and expenses include:		
Employee costs (see note 7)	**20,753**	17,543
Depreciation of property, plant and equipment (see note 12)	**3,921**	3,926
Loss on disposal of property, plant and equipment	**99**	758
Auditors' remuneration		
- in respect of statutory audit of the Company	**26**	24
- in respect of the audit of grant claims	**4**	4
Operating lease rentals		
- land and buildings	**275**	262
- plant and machinery	**6,149**	5,376
- motor vehicles	**260**	268
Cost of inventories recognised as an expense	**10,559**	9,920
Write down of inventories recognised as an expense	**263**	270
Non recurring transport costs	**100**	-
Other external and operating charges	**19,213**	17,920
	61,622	56,271

Write down of inventories recognised as an expense

In disposing of heritage fleet locomotives, the Company has made a provision against stock deemed to be in excess of future operational and maintanance 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:	**2014 Number**	2013 Number
Operations	**218**	193
Administration	**125**	111
	343	304

Employee costs during the year were as follows:	**£000**	£000
Wages and salaries	**16,568**	13,750
Social security costs	**1,532**	1,288
Pension costs	**2,653**	2,505
	20,753	17,543

Included within pension costs are £2,198,000 (2013: £2,241,000) in respect of the defined benefit pension scheme.

8. Directors' emoluments

	2014 £000	**2013 £000**
Aggregate emoluments	**431**	405
Aggregate amounts receivable under long term incentive plans	**51**	51
Other emoluments (including pensions)	**335**	313
	817	769

Retirement benefits are accruing to 3 Directors (2013: 3) under a defined benefit scheme.

The aggregate emoluments for the highest paid director are £194,438 (2013: £185,322). The accrued pension for the highest paid director is £194,717 (2013: £182,362).

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 £113,584 (2013: £78,469).

9. Finance income

	2014 £000	**2013 Restated £000**
Net finance income on defined benefit pension scheme (note 26)	-	116
Bank interest	**76**	13
	76	129

10. Finance costs

	2014 £000	2013 £000
Interest on loan due to immediate parent undertaking	**113**	113
Interest on obligations under finance leases	**493**	232
Net finance cost on defined benefit pension scheme (note 26)	**10**	-
Other interest charges	**20**	5
	636	350
Net Loss/(Profit) on financial assets and financial liabilities measured at fair value through profit and loss	**2**	(3)
	638	347

11. Taxation

The explanation for the tax charge in the year is set out below.	2014 £000	2013 £000
Profit before tax	**2,517**	3,525
Profit before tax at UK standard rate of 23% (2013: 24%)	**579**	846
Effects of:		
Expenses not Allowable for tax purposes	**(151)**	(203)
Depreciation for period in excess of capital allowances	**800**	940
Other short term timing differences	**(21)**	(35)
Group relief received for nil payment	**(1,207)**	(1,548)
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 £6,078,000 (2013: £5,701,000).

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

The UK corporation tax rate reduced from 24% to 23% with effect from 1 April 2013. A further reduction in the corporation tax rate from 23% to 21% was substantially enacted on 2 July 2013 and will bbe effective from 1 April 2014.

A further 1% reduction in the corporation tax rate from 21% to 20% was also substantially enacted on 2 July 2013 and will be effective from 1 April 2015

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 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 1 April 2013	**4,974**	**36,461**	**1,218**	**4,162**	**46,815**
Additions	-	-	-	10,967	10,967
Transfers	839	7,847	140	(8,826)	-
Disposals	-	(972)	(274)	(90)	(1,460)
At 31 March 2014	**5,813**	**43,336**	**1,084**	**6,213**	**56,322**
Depreciation and impairment					
At 1 April 2012	**2,633**	**22,458**	**1,105**	-	**26,196**
Charge for the year	222	3,644	60	-	3,926
Disposals	-	(5,400)	(56)	-	(5,456)
At 1 April 2013	**2,855**	**20,702**	**1,109**	-	**24,666**
Charge for the year	299	3,544	78	-	3,921
Disposals	-	(630)	(274)	-	(904)
At 31 March 2014	**3,154**	**23,616**	**913**	-	**27,683**
Carrying amount At 31 March 2014					
At 31 March 2014	**2,659**	**19,720**	**171**	**6,213**	**28,639**
At 1 April 2013	2,119	15,759	109	4,162	22,149

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:

	2014 £000	2013 £000
Cost	**3,944**	3,944
Aggregate depreciation	**(2,091)**	(1,598)
Carrying amount	**1,853**	2,346

13. Inventories

	2014 £000	2013 £000
Raw materials, spares & consumables	**4,072**	3,048

14. Financial instruments by category

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

	2014 £000	2013 £000
Financial assets – fair value through profit or loss:		
Derivatives not designated as hedges:		
Foreign exchange forward contracts (note 15)	**162**	61
	162	61
Financial assets – loans and receivables:		
Trade and other receivables excluding prepayments (note 17)	**15,816**	14,140
Cash and cash equivalents	**10,244**	5,060
	26,060	19,200
Financial liabilities – other financial liabilities:		
Current obligations under finance leases	**988**	1,174
Current trade and other payables excluding payments received on account and other taxes and social security costs (note 20)	**13,722**	9,407
Current borrowings	**1,616**	-
Current financial liabilities	**16,326**	10,581
Non-current obligations under finance leases		988
Non-current borrowings	**13,603**	7,000
Non-current financial liabilities	**13,603**	7,988
	29,929	18,569
Financial liabilities – fair value through profit or loss:		
Derivatives not designated as hedges		
Foreign exchange forward contracts (note 16)	**-**	185
	-	185

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

	2014	2013
	£000	£000
Non–current:		
Forward currency derivative contracts	-	-
Current:		
Forward currency derivative contracts	162	61

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 £162,211 (2013: £60,906).

16. Financial liabilities

	2014	**2013**
	£000	**£000**
Current:		
Forward currency derivative contracts	-	185

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 £Nil (2013: £184,963).

17. Trade and other receivables

	2014 £000	2013 £000
Current:		
Trade receivables	**7,022**	6,831
Provision for Bad Debts	**(117)**	-
	6,905	6,831
Accrued income	**3,318**	1,653
Other receivables	**5,593**	5,656
	15,816	14,140
Prepayments	**949**	755
	16,765	14,895

Trade receivables are non-interest-bearing and are generally on 30-60 day terms. Average trade receivable collectible days were 40 days (2013: 42 days).

As at 31 March 2014, the directors have made a provision for bad debts totalling £117k (2013: £NIL) 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

	2014 £000	2013 £000
At 1 April	-	78
Charge for the year	**117**	-
Release of provision to income statement	-	(78)
At 31 March	**117**	-

As at 31 March 2014, 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**
2014	**7,022**	**4,777**	**829**	**1,416**	-	-	-
2013	6,831	4,156	1,260	863	552	-	-

18. Cash and cash equivalents

	2014	2013
	£000	£000
Cash and cash equivalents	**10,244**	5,060

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 £Nil (2013: £1,000,000).

19. Obligations under finance leases

Minimum lease payments

	2014	2013
	£000	£000
Amounts payable under finance leases:		
Not later than one year	**1,046**	1,360
Later than one year and not later than five years	**-**	1,046
	1,046	2,406
Less: future finance charges	**(58)**	(244)
Present value of lease obligations	**988**	2,162
Less: amount due for settlement within twelve months (shown under current liabilities)	**(988)**	(1,174)
Amount due for settlement after 12 months (shown under non-current liabilities)	-	988

For the year ended 31 March 2014, the average effective borrowing rate was 3.4% (2013: 3.4%). 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.

20. Trade and other payables

	2014 £000	2013 £000
Current:		
Trade payables	**5,080**	3,669
General accruals	**4,094**	3,190
Other payables	**4,548**	2,548
	13,722	9,407
Other taxes and social security costs	**1,832**	1,564
	15,554	10,971

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 51 days (2013: 40 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.

21. Borrowings

At 31 March 2014	Current £'000	Non-current £'000	Total £'000
Loan due to immediate parent undertaking	-	7,000	7,000
Bank Loans	1,616	6,603	8,219
	1,616	13,603	15,219

At 31 March 2013	Current £'000	Non-current £'000	Total £'000
Loan due to immediate parent undertaking	-	7,000	7,000
Bank Loans	-	-	-
	-	7,000	7,000

The Parent Company Loan is interest bearing at a fixed percentage amount above the Bank of England base rate, and is repayable on or after 30th September 2016.
Bank Loans, which bear interest at a fixed rate, were drawn down to support the company's investment programme and are secured against the Company's fixed assets.

Maturity Profile of Borrowings

At 31 March 2014	Within 1 year £'000	1 – 2 years £'000	2 – 5 years £'000	Over 5 years £'000
Loan due to immediate parent undertaking	-	-	7,000	-
Bank Loans	1,616	1,616	4,987	-
	1,616	1,616	11,987	-

At 31 March 2013	Within 1 year £'000	1 – 2 years £'000	2 – 5 years £'000	Over 5 years £'000
Loan due to immediate parent undertaking	-	-	7,000	-
Bank Loans	-	-	-	-
	-	-	7,000	-

22. Share capital

	2014	2013
	£	£
Authorised:		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid:		
1 ordinary share of £1	**1**	1

23. 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 21, 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 £5,519,044 (2013: £5,630,125).

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 increase in post-tax profit for the year and increase of net assets of £725 (2013: £264,012). A 5% weakening in the exchange rate would, on the same basis, have decreased post-tax profit and decreased net assets by £801 (2013: £300,842).

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 21.

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 2014 would decrease by £35,000 (2013: £35,000); and
* total equity would decrease by £35,000 (2013: £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

23. Financial risk management (continued)

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.

24. Capital expenditure authorised

	2014 £000	2013 £000
Contracted for but not provided for	**4,562**	7,401

25. Operating lease commitments

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

	Land & Buildings		Other	
Operating leases which expire:	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Not later than one year	**238**	237	**8,216**	3,109
Later than one year and not later than five years	**113**	72	**26,688**	17,723
Later than five years	**187**	199	**3,266**	3,840
	538	508	**38,170**	24,672

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.

26. Retirement benefit schemes

An actuarial valuation of the GPS DRS section of the CNPP as at 31 March 2014 is expected to be completed shortly. The figures below have been estimated by a qualified actuary using the preliminary results of that valuation and take account of the requirements of IAS 19(R) in order to assess the assets of the scheme at 31 March 2014.

Details of the prior year restatement following the adoption of IAS 19(R) are made in note 3.

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

Actuarial assumptions	**2014**	2013
Discount rate	**4.40%**	4.25%
RPI Inflation assumption	**3.35%**	3.40%
Pensions increases in payment	**3.35%**	3.40%
Pensions increases in payment	**3.35%**	3.40%
Salary increases	**3.35% for years 1-4 3.60% for years 4-14 3.85% thereafter**	3.40% for years 1-3 increasing to 3.90% thereafter
Mortality	**SAPS CMI 2013 1.0%pa long term trend rate**	SAPS CMI11 projection, 1.0%pa trend (males) 0.5%pa trend (females)
Life expectancy of male member (years)		
Current pensioner at 65	**21.9**	22.1
Future pensioner at 65 (now 45)	**23.3**	23.4

Other assumptions are the same as those used in the preliminary results of the CNPP funding valuation as at 31 March 2013.

26. Retirement benefit schemes (continued)

Fair value of Plan assets and balance sheet position	2014 £000	2013 £000
Equities	**21,112**	18,510
Property	**2,808**	2,342
Fixed Interest Gilts	-	-
Index Linked Gilts	**11,998**	11,952
Corporate Bonds	**12,065**	11,441
Other	**514**	152
Total fair value of Plan assets	**48,497**	44,397
Present value of Plan liabilites	**44,991**	45,752
Surplus/(deficit) in the Plan	**3,506**	(1,355)
Restriction on surplus	**(3,506)**	-
Net pension surplus/(deficit) after restriction	-	(1,355)

Changes in defined benefit obligations	2014 £000	2013 Restated £000
Liability at start of period	**45,752**	34,430
Current service cost	**2,790**	2,316
Interest cost	**1,943**	1,659
Past service cost	-	-
Contributions by participants	**493**	483
Curtailment losses / (gains)	-	-
Settlement losses / (gains)	-	-
Actuarial losses (gains) due to experience	**(2,394)**	(43)
Actuarial losses (gains) due to changes in financial assumptions	**(3,450)**	7,092
Actuarial losses (gains) due to changes in demographic assumptions	**367**	-
Benefits paid	**(510)**	(185)
Liability at end of period	**44,991**	45,752

Changes in fair value of Plan assets	2014 £000	2013 Restated £000
Assets at start of period	**44,397**	36,852
Interest income on assets	**1,933**	1,829
Actuarial (losses) / gains on Plan assets	**(61)**	3,170
Contributions by the employer	**2,245**	2,248
Contributions by participants	**493**	483
Benefits paid	**(510)**	(185)
Assets at the end of the period	**48,497**	44,397

26. Retirement benefit schemes (continued)

Total defined benefit recognised in Profit and Loss	**2014**	2013 Restated
	£000	£000
Current service cost	**2,790**	2,316
Interest on Scheme liabilities	**10**	(170)
Total profit and loss charge	**2,800**	2,146

Analysis of amount recognised in Statement of Comprehensive Income (SOCI)	**2014**	2013 Restated
	£000	£000
Total actuarial gains / (losses)	**5,416**	(3,879)
Cumulative amount of gains / (losses) recognised*	**1,537**	(3,879)

*Cumulative gains / (losses) are since the adoption of the revised 2011 IAS 19

Sensitivity analysis

Impact on defined benefit obligation	Increase	Decrease
0.5% change in discount rate	(12.5%)	14.3%
0.5% change in salary increase	6.0%	(5.7%)
0.5% change in RPI inflation	14.3%	(12.5%)
1 year increase in life expectancy	1.6%	-

History of experience gains and (losses)

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Experience gains/(losses) on Plan assets	**(61)**	3,170	535	(19)	4,818
Experience gains and gains/(losses) on Plan liabilities	**2,394**	43	(212)	994	-

Contributions are also made by some employees to a group defined contribution scheme amounting to £226,000 (2013: £128,000).

The total Company pension costs for the year were £2,653,000 (2013: £2,369,000).

The balance of pension scheme contributions outstanding at the year end was £216,958 (2013: £222,916).

26. Retirement benefit schemes (continued)

Background to the Plan, regulatory framework and other entity's responsibility for the governance of the Plan
The Company participates in the CNPP, a multi-employer defined benefit pension scheme. The Plan is sectionalised and each participating employer is only accountable for their section. A ful actuarial valuation is conducted for each section of the Plan to determine the funding level and required contribution rate.

The Plan is open to future accrual of benefits, but closed to new entrants.

The GPS DRS section was merged into the CNPP from the GPS Pension Scheme with effect from 1 April 2012. An actuarial valuation of the GPS DRS section of the Plan is expected to be completed shortly. The IAS 19 disclosures have been estimated by a qualified actuary using he preliminary results of that valuation.

The Plan is a registered defined benefit final salary scheme subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The Plan is operated under trust and the Trustees are responsible for operating the Plan. They have a statutory responsibility to act in accordance with the Plan's Trust Deed and Rules, in the best interests of the beneficiaries of the Plan and UK legislation.

Profile of the Plan
The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Fort the GPS section of the Pla, approximately 80% of the liabilities are atttributable to current employees, 10% to former employees and 10% to current pensioners. The duration of the Plan's liabilities is approximately 20 years.

Risks associated with the Plan

The nature of the Plan exposes the Company to a number of risks, the most significant of which are:

- the risk that movements in the Plan liabilties are not met by corresponding movements in the Plan's assets;
- lower than expected investment returns;
- higher that expected inflation and slary increases; and
- members living longer than expected

Plan amendments, curtailments and settlements
There have not been any material amendments, curtailments or settlements during the year.

Expected contributions over the next accounting year
The Company expects to contribute £2,159k to the GPS section of the Plan over the year to 31 March 2015.

Recognition of gains and losses
The Company recognises actuarial gains and losses immediately, throught the remeasurement of the net defined benefit liability.

Sensitivity analysis
The sensitivities were calculated using the approximate methods taking into account the duration of the Plan's liabilities. This is the same approach adopted at the previous year end. The sensitivities differ slightly from those shown last year, following the preliminary results of the 2013 CNPP funding valuation. We have shown the sensitivity to the liabliities to changes in the main actuarial assumptions and have presented the upside and downside of actual experience of these economic factors being different to what is expected for each asumption.

Asset-liabilty matching strategies
The Company and Trustees do not use any asset-liability matching strategies.

26. Retirement benefit schemes (continued)

Plan assets
The Plan assets are invested in the asset classes shown aboce. All assets (excluding the amount held in the Trustee's bank account) have a quoted market value in an active market.

Description of funding arrangements
The schedule of contributions dated 31 March 2011 sets out the current contributions payable by the Company. As part of the current valuation as at 31 March 2013, the Company and the Trustees are agreeing a new schedule of contributions.

27. 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
NDA	**125**	1,952	**-**	-	**-**	1,226	**7,000**	7,000
International Nuclear Services Limited	**14,772**	14,375	**-**	-	**62**	49	**-**	-
NDA Properties Limited	**-**	-	**374**	103	**-**	-	**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.

	2014	2013
	£000	£000
Short term employee benefits	**667**	654
Post-employment benefits	**130**	126
Other long-term benefits	**88**	95
	885	875

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 £113,584 (2013: £78,469).