London Overground Rail Operations Limited

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2013

Registration number 5668786

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

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DIRECTORS AND ADVISERS

The Directors who served during the year and those in office at the date of signing this report

K L Leong
J P W Long
S Murphy
R Holland (resigned 15 April 2013)
Tai Chong Chew
A Furlong
H McClean (appointed 9 May 2013)

Company secretary and registered office

W G R Davies

Great Central House
Marylebone Station
Melcombe Place
London
NW1 6JJ

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Solicitors

SNR Denton UK LLP
One Fleet Place
London
EC4M 7WS

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the year ended 31 March 2013

PRINCIPAL ACTIVITY

London Overground Rail Operations Limited (the 'Company') is a 50/50 joint venture between MTR Corporation, operator of the Hong Kong metro, and the Deutsche Bahn Group, operator of the German national rail network The Company started trading from 11 November 2007 and its principal activity is the operation of London Overground for Transport for London (TfL)

The Company won the right to operate London Overground when it was awarded the London Rail Concession ("the Concession") by TfL on 2 July 2007 The duration of the Concession is for seven years from the start of passenger operations on 11 November 2007 with TfL having the option to extend the Concession by a further two years if it so chooses

The London Overground network consists of passenger railway services between Richmond and Stratford (the North London Line), Watford and Euston (stopping trains only, known as the DC line), Clapham Junction and Willesden Junction (the West London Line), Gospel Oak and Barking (the GOB Line), and the East London Line operating between Highbury Islington/Dalston Junction and Crystal Palace/West Croydon

In December 2012 London Overground opened an extension of the East London line connecting Surrey Quays to Clapham Junction The opening of the extension created an orbital network connecting North London, East London and South London The extension increased the number of Stations operated by London Overground Rail Operations by two

London Overground was a key service provider for the 2012 Olympic games serving the Olympic park (via Stratford) as well as several other Olympic locations The Company made its full contribution to a successful games and met all its objectives in relation to the Olympic and Paralympics Games An enhanced service, comprising over 29,000 trains was operated during the games period and an overall PPM result of 98 25% was achieved 10 5 million passenger journeys were made during this period, an increase of 48 4% compared to the same period in 2011

The extension of the East London line successfully opened in December 2012, resulting in the Company taking on a further two stations and increasing the number of stations served by six The Company recruited and trained an additional 51 drivers for the new services and refurbished the two managed stations in advance of the opening

Currently across the London Overground network the Company is the Station Facilities Operator (SFO) at 57 stations (increased by 2 in December 2012) and its services call at a further 27 stations (increased by 4 in December 2012) managed by other operators

CONCESSION EXTENSION

On 7 February 2013 the Company was awarded a two year extension to the Concession which now ends on 12 November 2016

DIRECTORS' REPORT (continued)

BUSINESS REVIEW

KEY PERFORMANCE INDICATORS

The key financial highlights for the year are as follows

	Year ended 31 March 2013	Restated Year ended 31 March 2012
	£'000	£'000
Profit and loss account·		
Turnover	126,829	110,481
Gross profit	19,298	20,386
Operating profit	6,441	7,540
Net interest receivable	644	652
Balance sheet		
Fixed assets	3,213	4,869
Net current assets	6,449	2,650
Net funds	28,550	21,329
Net assets excluding post retirement obligations	3,224	6,332
Shareholders' funds	3,224	6,332
	%	%
Profitability		
Operating profit	5 1	6 8

Turnover increased by £16 3 million to £126 8 million, this was largely due to strong passenger revenue growth in the year There was also additional revenue received from the performance regimes and the 2012 Olympics The Company extended its services from Clapham Junction to Surrey Quays during the year and this also helped to achieve a further increase in turnover

Operating profit decreased slightly compared to the prior year, mainly due to the expansion in London Overground's services and the additional costs associated with this combined with the increased cost of providing for the Company's maintenance obligations

The Company used an industry standard Public Performance Measurement (PPM) during the period The result for the year to 31 March 2013 of 96 64% (2012 96 54%) met the target of 95 20% (2012 95 00%) as contained in its Concession Agreement with Transport for London

PPM is the UK rail industry's recognised measurement of operational train performance The figure is a 12-month moving annual average (MAA) and represents the percentage of timetabled passenger services arriving at their scheduled destination within five minutes of the published arrival time

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

Passenger numbers on the London Overground continue to grow at a fast pace (number of journeys up around 31% over the year) Identifying and implementing effective arrangements to manage higher passenger numbers on stations and trains in order to minimise the adverse impact on customer satisfaction and to maintain the underlying robustness of the service is an important priority for the Company in the next year

The Company fully supports RfL's plans to expand capacity through the lengthening of certain class of its fleet from 4 to 5 cars This project, named London Overground Capacity Improvement Programme (LOCIP), will have a major impact on the Company's operations including significant changes to rolling stock, stations, depots and the infrastructure To support the successful development of LOCIP, the Company will ensure that it is in a position to review and comment on proposals and to facilitate the various changes the project will involve, both in the interim, and in its final form

Trade debtors are managed in respect of credit and cash flow risk The Company monitors amounts outstanding and takes appropriate measures to ensure recoverability The Company manages the liquidity risk of the bank balances by maintaining cash flow forecasts in order to identify future cash flow requirements Trade creditors' liquidity risk is managed by ensuring sufficient funds are available to meet amounts due

PAYMENT TO CREDITORS

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them

Trade creditors at period end amount to 23 days (2012 restated 35 days) of average supplies for the period The 2012 creditor days have been restated in order to align the calculation with the current year calculation

DIVIDENDS

A dividend payment of £8 8m was made in the year ended 31 March 2013 (2012 £8 5m)

DIRECTORS' REPORT (continued)

EMPLOYEES

London Overground Rail Operations Limited is committed to delivering equality and inclusion in its work both as an employer and provider of transport, fulfilling its statutory responsibilities to tackle discrimination in the work place To this end the Company has undertaken a corporate review of equality and diversity with action plans for community engagement, supplier diversity, training and development

The Company has established a working group to drive the programme of equality and inclusion throughout the organisation and deliver equal opportunities at work The Company will not discriminate on the grounds of sex, disability, race, gender, reassignment, sexual orientation, marital status, ethnic or national origin, religion or belief, age or membership or non-membership of a trade union It is the policy of the Company that training, career development and promotional opportunities should be available to all employees

Details of the number of employees and related costs can be found in note 5 to the financial statements on pages 18 and 19

CHARITABLE CONTRIBUTIONS

During the year the Company made of charitable donations of £1,066 (2012 £nil) and political donations of £nil (2012 £nil)

GOING CONCERN

As highlighted in note 12 and note 15 to the financial statements, the Company meets its day-to-day working capital requirements principally through available cash resources generated through operations

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

REAPPOINTMENT OF AUDITOR

In accordance with s485 Companies Act 2006 a resolution to reappoint Deloitte LLP as auditor will be proposed at the forthcoming Annual General Meeting

DIRECTORS' REPORT (continued)

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that

- as far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006

On behalf of the Board

Steve Murphy
Director

25 July 2013
Great Central House
Marylebone Station
Melcombe Place
London
NW1 6JJ

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare such financial statements for each financial year Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON OVERGROUND RAIL OPERATIONS LIMITED

We have audited the financial statements of London Overground Rail Operations Limited for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 26 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditor

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

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 annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON OVERGROUND RAIL OPERATIONS LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Simon Letts

Simon Letts BA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

29 July 2013

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Turnover	1b, 2	**126,829**	110,481
Cost of sales		**(107,531)**	(90,095)
Gross profit		**19,298**	20,386
Administrative expenses		**(12,857)**	(12,846)
Operating profit	3	**6,441**	7,540
Net interest receivable	6	**644**	652
Profit on ordinary activities before taxation		**7,085**	8,192
Tax charge on profit on ordinary activities	7	**(1,812)**	(2,200)
Profit on ordinary activities after taxation	19	**5,273**	5,992

A reconciliation of movement in shareholders' funds is given in note 19

All items in the profit and loss account relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Profit for the financial year		**5,273**	5,992
Actuarial gain on post retirement obligation	23	**556**	422
Deferred tax relating to post retirement obligation		**(114)**	(82)
Total recognised gains for the year		**5,715**	6,332

BALANCE SHEET AS AT 31 MARCH 2013

	Notes	31 March 2013 £'000	Restated 31 March 2012 £'000
Fixed assets			
Intangible assets	8	896	1,455
Tangible assets	9	2,317	3,414
Current assets			
Stocks	10	1,451	1,035
Debtors	11	30,369	23,410
Cash at bank and in hand	12	28,550	21,329
		60,370	45,774
Creditors amounts falling due within one year	14	(53,921)	(43,124)
Net current assets		6,449	2,650
Total assets less current liabilities		9,662	7,519
Creditors: amounts falling due after more than one year	15	-	-
Provisions for liabilities	16	(6,438)	(1,187)
Net assets excluding post retirement obligations		3,224	6,332
Post retirement obligations	23	-	-
Net assets		3,224	6,332
Capital and reserves			
Called up share capital	18	-	-
Profit and loss account			
- Deficit relating to post retirement obligations	19	-	-
- Others		3,224	6,332
Total profit and loss account		3,224	6,332
Shareholders' funds		3,224	6,332

The financial statements of London Overground Rail Operations Limited, registered number 5668786, were approved by the Board of Directors and authorised for issue on 25 July 2013

Steve Murphy
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Year ended 31 March 2013 £'000	Restated Year ended 31 March 2012 £'000
Net cash inflow from operating activities	13	**18,822**	23,212
Returns on investment and servicing of finance			
Interest received		102	86
Interest paid		-	(51)
Net cash inflow from returns on investment and servicing in finance		**102**	35
Taxation including payments for group relief		**(2,551)**	(3,419)
Capital Expenditure			
Tangible assets		(329)	(405)
Net cash inflow before management of liquid resources and financing		**16,044**	19,422
Financing			
Decrease in senior debt falling due less than one year	15	-	(2,000)
Dividend paid		(8,823)	(8,464)
Net cash outflow from financing		(8,823)	(10,464)
Increase in cash in the year		**7,221**	8,958
Cash at bank and in hand			
Opening balance	13	21,329	12,371
Closing balance	13	28,550	21,329

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

1. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom laws and accounting standards Certain prior year amounts in the Balance sheet, Cash Flow Statement and Notes to the financial statements have been restated Accruals relating to Rolling stock maintenance, Station Dilapidations and Heavy maintenance reserve have been reclassified as Provisions for liabilities, affecting Creditors in the Balance sheet and notes 14, 15 and 16, as well as the Net Current Assets amount within Key Performance Indicators on page 4 In the Cash Flow Statement, Taxation paid was adjusted to include group relief payments by reclassifying from the working capital movement for Creditors in note 13 The operating lease rentals amount for other plant and equipment in note 3 has been restated to report costs consistent with the current year amount In the Transactions with Related Parties note 22 on page 27, the amounts owed to/(owed from) related parties have been updated to reflect the final closing balances after adjustments

A summary of the principal accounting policies adopted by the Directors, which have been applied consistently in the current and prior periods, is shown below

b) Turnover

Turnover is the total amount receivable by the Company for services provided, excluding VAT and trade discounts Where payments are received from customers in advance of services provided, the amounts are recorded as Deferred season ticket income and included as part of Creditors due within one year

Turnover reflects the following

I Concession payments payable to the Company from Transport for London in respect of the passenger services it operates Concession payments are recognised in the period to which the payment relates and are enshrined in the Concession Agreement with Transport for London

II 10% of passenger income is paid to the Company through the operation of a revenue share with Transport for London Passenger income represents agreed amounts attributed to the London Overground services by the income allocation systems of the Railway Settlement Plan Limited, principally in respect of passenger receipts, based on detailed surveys of passenger flows The income is recognised in the period in which the passenger travel occurs

III Receipts for payments under the operational performance regime are contained within the Concession Agreement with Transport for London Under this regime the Company is incentivised to minimise the level of delay If the Company delivers less delay than the target then a payment is received from Transport for London If the Company delivers more delay than the target then a payment is made by the Company to Transport for London Such amounts are accounted for in the period to which the operational performance relates

IV Station income is received from other train operating companies for using and stopping at stations operated by the Company The Income is agreed annually and invoiced and recognised in 13 equal periodic instalments throughout the year

V Depot income is received from other train operating companies for works carried out at the Company's depot at Willesden and for stabling and fuelling units owned by other train operating companies at the depot Income is invoiced and recognised when the work is complete

Notes to the financial statements for the year ended 31 March 2013 (continued)

1 ACCOUNTING POLICIES (continued)

VI Other income is derived from car park income, commissions and other services and is recognised in the profit and loss account upon completion of the service

c) Taxation

Current tax, including United Kingdom Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

In accordance with FRS 19 "Deferred Tax", deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet Deferred tax assets are not discounted

d) Tangible fixed assets

Tangible fixed assets are stated at cost including directly attributable finance costs, net of depreciation and provision for impairment Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful economic life, as follows

I Short leasehold buildings, plant and equipment and infrastructure improvements – over the remaining lease term or remaining asset life in line with the Concession Agreement as appropriate, and

II Assets in the course of construction are not depreciated until commissioned Once commissioned, assets are depreciated in line with the Concession Agreement Assets which are listed in the Concession Agreement are depreciated in line with the Concession Agreement whilst other assets are depreciated over their economic useful life

e) Operating costs

Operating costs are capitalised during the construction period Following commissioning, regular operating and maintenance costs and London Overground Rail Operations Limited central costs are expensed to the profit and loss account as incurred

f) Stocks

Stocks are stated at the lower of cost and net realisable value Stock materials are held at an average unit price In determining the cost of raw materials, consumables and goods purchased for resale, the average cost is used

Notes to the financial statements for the year ended 31 March 2013 (continued)

1 ACCOUNTING POLICIES (continued)

g) Defined Benefit Schemes

The Company operates a defined benefit scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the Company Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the Company

For the Company's defined benefit scheme, in accordance with FRS 17 'Retirement Benefits' the service cost of the pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the profit and loss account A charge equal to the increase in present value of the scheme liabilities and a credit equivalent to the Company's long-term expected returns on the assets are included in the profit and loss account under interest

The difference between the market value of the assets of the scheme and the present value of the accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences arising from experience or assumption changes

h) Leased assets

The Company does not have any assets financed through a finance lease All leases are therefore regarded as operating leases and the payments made under them are charged to the profit and loss account over the lease term on a straight-line basis

i) Intangible fixed assets

Intangible fixed assets are the costs incurred by the Company to obtain the London Rail Concession Bidding costs, incurred by the Company's parents prior to contract award on 2 July 2007, have been charged to the Company where they have been capitalised as an intangible fixed asset and amortised over the original 7 year life of the Concession In accordance with Financial Reporting Standard 11, the intangible fixed asset is subject to an impairment review each year to ensure that it is recorded in the Financial Statements at no more than the recoverable amount

The Company has expensed all costs incurred after being awarded the Concession on 2 July 2007 until trading commenced on the 11 November 2007

j) Long-term contract balances

Amounts recoverable on long-term contracts which are included in debtors are stated at the net sales value of the work carried out less amounts received as progress payments on account Excess progress payments are included in creditors as payments on account

k) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material

Notes to the financial statements for the year ended 31 March 2013 (continued)

2 TURNOVER

Turnover originates in the United Kingdom and derives from the operation of passenger railway services and associated activities

Turnover for the year can be analysed as follows

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Concession payments	**98,507**	86,473
Passenger income	**12,881**	8,590
Performance regime income	**7,912**	7,550
Station income received	**4,093**	4,152
Depot income	**403**	601
Other	**3,033**	3,115
	126,829	110,481

3. OPERATING PROFIT

Operating profit for the year is stated after charging

	Year ended 31 March 2013 £'000	Restated Year ended 31 March 2012 £'000
Access charges payable to Network Rail	**12,486**	10,488
Operating lease rentals		
- rolling stock charge	**2,088**	2,091
- other plant and equipment	**4,291**	4,114
Depreciation and amortisation		
- tangible fixed assets, owned	**1,426**	1,397
- intangible assets	**559**	558
Auditor's remuneration		
- fees payable to the Company's auditor for the audit of the Company's annual accounts	**38**	49
- fees payable to the Company's auditor for non audit services	**3**	1

Notes to the financial statements for the year ended 31 March 2013 (continued)

4 DIRECTORS' REMUNERATION

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Emoluments	174	174
Company contribution to money purchase pension schemes	25	26
	199	200

The number of directors who:	Year ended 31 March 2013 No	Year ended 31 March 2012 No
Are members of a defined pension scheme	1	1
	1	1

5. STAFF COSTS

The average number of people employed by the Company during the year, including directors, was as follows

	Year ended 31 March 2013 No.	Year ended 31 March 2012 No
Customer Services	500	497
Operations	498	455
Fleet	117	109
General	93	96
	1,208	1,157

Notes to the financial statements for the year ended 31 March 2013 (continued)

5 STAFF COSTS (continued)

The aggregate payroll costs of these people were as follows

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Wages and salaries	52,577	44,561
Social security costs	4,272	3,665
Other pension costs	5,312	4,934
	62,161	53,160

6 NET INTEREST RECEIVABLE

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	102	86
Interest on pension adjustment	542	617
	644	703
Interest payable and similar charges		
Interest payable on Subordinate Debt	-	(40)
Interest payable on Senior Debt	-	(10)
Other	-	(1)
	-	(51)
Net interest receivable	644	652

Notes to the financial statements for the year ended 31 March 2013 (continued)

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

<u>Analysis of tax charge for the year</u>	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Current tax		
UK corporation tax	1,279	1,236
Group relief payable	1,278	1,085
Adjustments in respect of previous periods		
UK Corporation tax	(412)	(175)
Group relief payable	381	212
Total current tax	2,526	2,358
Deferred tax		
Origination and reversal of timing differences (note 17)	(656)	(16)
Deferred tax arising on defined benefit cost (note 23)	(114)	(82)
Adjustment in respect of prior periods	8	(102)
Adjustment due to Rate Change	48	42
Total deferred tax	(714)	(158)
Total tax on profit on ordinary activities	1,812	2,200

Factors affecting the tax charge for the current period

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Profit on ordinary activities before tax	7,085	8,192
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24% (2012 26%)	1,700	2,130
Effects of.		
Expenses not deductible for tax purposes	68	65
Capital allowances in excess of depreciation	126	16
Other timing differences	530	-
FRS 17 adjustment	264	270
FRS 17 adjustment – finance income	(130)	(160)
Adjustments to tax charge in respect of previous periods	(32)	37
Tax charge for the year	2,526	2,358

Notes to the financial statements for the year ended 31 March 2013 (continued)

8. INTANGIBLE FIXED ASSETS

	Cost of Concession £'000
Cost	
As at 1 April 2012 and 31 March 2013	3,919
Amortisation	
As at 1 April 2012	2,464
Charge for the year	559
At 31 March 2013	3,023
Net book value	
As at 31 March 2013	**896**
As at 31 March 2012	1,455

9 TANGIBLE FIXED ASSETS

	Short leasehold £'000	Plant and machinery £'000	Infrastructure improvements under construction £'000	**Total £'000**
Cost				
At 1 April 2012	4,423	3,477	322	8,222
Opening balance adjustment	69	(69)	-	-
At 1 April 2012 (restated)	4,492	3,408	322	8,222
Additions	49	258	22	329
Transfers	23	291	(314)	-
At 31 March 2013	4,564	3,957	30	8,551
Depreciation				
At 1 April 2012	2,377	2,431	-	4,808
Opening balance adjustment	25	(59)	34	-
At 1 April 2012 (restated)	2,402	2,372	34	4,808
Charge for the year	871	583	6	1,460
Disposals	-	-	(34)	(34)
At 31 March 2013	3,273	2,955	6	6,234
Net book value				
As at 31 March 2013	**1,291**	**1,002**	**24**	**2,317**
As at 31 March 2012	2,090	1,036	288	3,414

Notes to the financial statements for the year ended 31 March 2013 (continued)

10. STOCKS

	31 March 2013 £'000	31 March 2012 £'000
Raw materials and consumables	**2,062**	1,283
Obsolete stock provision	**(611)**	(248)
	1,451	1,035

11. DEBTORS

		31 March 2013 £'000	31 March 2012 £'000
Due within one year			
Trade debtors		**921**	1,769
Rail settlement plan		**15,452**	9,194
Amounts owed by related parties	22	**282**	60
Other debtors		**3,764**	2,258
Prepayments and accrued income		**8,849**	9,628
		29,268	22,909
Due after more than one year			
Deferred tax	17	**1,101**	501
		30,369	23,410

12 CASH AT BANK AND IN HAND

Cash on deposit, at bank and in hand is £28 6 million (2012 £21 3 million) This includes a cash balance of £2 4 million (2012 £2 3 million) held to meet the requirements of the Concession Agreement set out by Transport for London and a cash balance of £1 4 million (2012 £1 4 million) held to meet the requirements of the Heavy Maintenance reserve set out by an agreement with Angel Train Ltd

The Company is required to retain both these amounts in a separate bank account and these balances are therefore not available for other corporate purposes

13 ANALYSIS OF NET FUNDS

	At March 2012 £'000	Cash flow £'000	Non Cash item £'000	At March 2013 £'000
Cash in hand and at bank	21,329	7,221	-	**28,550**
Subordinated debt due in more than one year	-	-	-	-
Net funds	21,329	7,221	-	**28,550**

Notes to the financial statements for the year ended 31 March 2013 (continued)

13. ANALYSIS OF NET FUNDS (continued)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	31 March 2013 £'000	31 March 2012 £'000
Increase in cash in the year	7,221	8,958
Decrease in subordinated debt due in more than one year	-	2,000
Increase in net funds	7,221	10,958
Opening net funds	21,329	10,371
Closing net funds	28,550	21,329

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 March 2013 £'000	Restated Year ended 31 March 2012 £'000
Operating profit	6,441	7,540
Depreciation and amortisation	1,985	1,955
Increase in stocks	(416)	(26)
(Increase) / decrease in debtors	(6,133)	23,355
Increase / (decrease) in creditors	11,695	(10,799)
Increase in provisions	5,250	1,187
Net cash inflow from operating activities	18,822	23,212

14. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

		31 March 2013 £'000	Restated 31 March 2012 £'000
Trade creditors		3,522	4,543
Rail settlement plan creditors		12,407	10,852
Amounts owed to related parties	22	1,748	1,318
Corporation tax payable		809	1,061
Other taxation and social security		4,422	2,899
Other creditors		11,726	6,076
Accruals and deferred income		17,498	15,099
Deferred season ticket income		1,789	1,276
		53,921	43,124

Notes to the financial statements for the year ended 31 March 2013 (continued)

15. CREDITORS. AMOUNTS FALLING DUE AFTER ONE YEAR

The Company had a subordinated debt facility with MTR Corporation Limited and DB Regio UK Limited (formerly Laing Rail) The amount due under the sub debt facility balance was fully repaid in 2012, from a balance of £2m in 2011 This repayment effectively terminated the facility and as such is no longer available to drawdown upon

16. PROVISIONS FOR LIABILITIES

	Other £'000	**Total £'000**
Amount falling due within one year		
At 1 April 2012	506	**506**
Charged to profit and loss account	2,058	**2,058**
At 31 March 2013	2,564	**2,564**
Amount falling due after one year		
At 1 April 2012	682	**682**
Charged to profit and loss account	3,192	**3,192**
At 31 March 2013	3,874	**3,874**
Total provisions for liabilities	6,438	**6,438**

The other provisions falling due within one year relate to Heavy maintenance reserve and those falling due after one year relate to maintenance and dilapidation cost of rolling stock and stations The provisions within one year will become payable when the heavy maintenance is carried out The amounts falling due after one year will become payable at the end of the concession

17. DEFERRED TAX

	£'000
At 1 April 2012	501
Adjustment in respect of prior periods	(8)
Rate Change	(48)
Provided during the year	656
At 31 March 2013	**1,101**
Difference between accumulated depreciation, amortisation and capital allowances	429
Other timing differences	672
Deferred tax asset	**1,101**

Notes to the financial statements for the year ended 31 March 2013 (continued)

18. CALLED UP SHARE CAPITAL

	31 March 2013 No.	31 March 2012 No
Authorised		
Ordinary shares of £1 each	**2**	2
	£	£
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

19. MOVEMENT IN RESERVES

	Pension Reserve £'000	Profit and Loss account £'000	**Total £'000**
At 31 March 2012	-	6,332	6,332
Profit for the year	-	5,273	5,273
Actuarial gain on post retirement obligations	556	-	556
Deferred tax relating to post retirement obligation	(114)	-	(114)
Dividend	-	(8,823)	(8,823)
Current pension service cost in excess of current contribution	(849)	849	-
Other finance income	542	(542)	-
Employer's share of interest cost	(2,438)	2,438	-
Expected return on section assets	2,189	(2,189)	-
Deferred tax arising on defined benefit cost	114	(114)	-
At 31 March 2013	**-**	**3,224**	**3,224**

Pension reserve is a distributable reserve which recognises future employer's liability for any funding shortfall to the defined benefit scheme See note 23

Notes to the financial statements for the year ended 31 March 2013 (continued)

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Profit for the year	**5,273**	5,992
Actuarial gain on post retirement obligations	**556**	422
Deferred tax relating to post retirement obligation	**(114)**	(82)
Dividend	**(8,823)**	(8,464)
Net decrease in shareholders' funds	**(3,108)**	(2,132)
Opening shareholders' funds	**6,332**	8,464
Closing shareholders' funds	**3,224**	6,332

21 FINANCIAL COMMITMENTS

The Company has the following annual commitments, amounting to £2 1 million due under operating leases, which expire as follows

	Rolling stock £'000
Operating leases which expire	
Within one year	-
Between one and five years	2,088
In five years or more	-
	2,088

The Company has contracts with Network Rail Infrastructure Limited for access to the railway track infrastructure (track, station and depots) These contracts are for a remaining period of three years The contracts may be terminated by joint agreement between the companies

The Company is committed to pay a fixed charge of £6 3 million (2012 £4 5 million) and £4 1 million (2012 £4 0 million) for station and depot leases in the next financial year Thereafter Network Rail contracts will rise by RPI In addition, a variable charge is levied on the basis of train miles actually run

Notes to the financial statements for the year ended 31 March 2013 (continued)

22 TRANSACTIONS WITH RELATED PARTIES

During the period the Company purchased goods and services from associated undertakings as shown

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
MTR Corporation Limited	**-**	-
DB Regio UK Limited	**(65)**	(381)
Chiltern Railway Company Limited	**(468)**	(409)
	(533)	(790)

During the period the Company provided services to the associated undertakings as shown

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
MTR Corporation Limited	**52**	-
DB Regio UK Limited	**31**	525
Chiltern Railway Company Limited	**202**	486
Tyne and Wear Metro Limited	**161**	193
	446	1,204

All transactions are done on an arms length basis

Amounts owed to / (owed from) related parties

	31 March 2013 £'000	Restated 31 March 2012 £'000
MTR Corporation Limited	**1,748**	648
DB Regio UK Limited	**(226)**	648
Chiltern Railway Company Limited	**(29)**	(60)
Tyne and Wear Metro Limited	**(27)**	22
	1,466	1,258

The relationship of the Company to these companies is as follows

MTR Corporation Limited owns 50% of the joint venture along with DB Regio UK Limited who owns the other 50% Chiltern Railway Company Limited is a 100% owned subsidiary of M40 Trains Limited who in turn is 100% owned by DB Regio UK Limited DB Tyne and Wear is 100% owned by DB Regio UK limited

Notes to the financial statements for the year ended 31 March 2013 (continued)

22 TRANSACTIONS WITH RELATED PARTIES (continued)

Shareholder loans

As at 31 March 2013, the Company had long-term subordinated debt from MTR Corporation Limited of £nil (2012 £nil) and from DB Regios UK Limited of £nil (2012 £nil)

Interest charged to the Company for long-term subordinated debt during the period as shown

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
MTR Corporation Limited		20
DB Regio UK Limited	-	20
	-	40

Payments for group relief

The Company paid the following amounts for group relief during the period as shown

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
MTR Corporation Limited	**444**	1,571
DB Regio UK Limited	**989**	1,630
	1,433	3,201

23 POST RETIREMENT OBLIGATIONS

	31 March 2013 £'000	31 March 2012 £'000
Closing pension scheme liability	-	-
Deferred tax asset	-	-
Net pension liability	-	-

Defined benefit pension schemes

The Company operates a defined benefit scheme for the benefit of the employees and executive directors The London Overground Section is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme The assets of the London Overground Section are administered by trustees in a fund independent from the assets of the Company

Notes to the financial statements for the year ended 31 March 2013 (continued)

23. POST RETIREMENT OBLIGATIONS (continued)

The London Overground Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost The figures reported below therefore represent only the Company's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit This is for simplicity of interpretation and for consistency with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year

Employer contributions for the period ending 30 June 2012 are 15 9% of Section Pay for all members Thereafter, the employer will pay 14 64% of Section Pay for 'Category One Member' and 13 92% of Section Pay for 'Category Two Members' These rates are expected to continue until 30 June 2015 when the employer contribution rate will revert to 60% of the long term joint contribution rate of 22 9% and 21 7% of Section Pay for Category One and Category Two members respectively Future contribution rates are subject to review following the next actuarial valuation as at 31 December 2013

The contributions are determined by a qualified actuary on the basis of triennial valuations updated using the projected unit method

There were no outstanding or prepaid contributions at either the beginning or the end of the financial period The London Overground Section is open to new members

Membership data

	31 March 2013 No.	31 March 2012 No
Active members		
Number of active members	**1,050**	987
Annual payroll for active members (£'000)	**38,266**	32,472
Average age of active members	**43 years**	43 years
Deferred members		
Number of deferred members	**160**	138
Total payroll for deferred pensions (£'000)	**270**	247
Average age of deferred members	**44 years**	43 years
Pensioner members (including dependants)		
Number of pensioner members	**50**	35
Annual payroll for pension members (£'000)	**300**	205
Average age of pensioner members	**61 years**	60 years

Summary of assumptions

	31 March 2013 % pa	31 March 2012 % pa
Rate of increase in salaries	**3.9**	4 3
Rate of increase for pensions in payment	**2.6**	2 3
Discount rate	**4 6**	5 3
Inflation	**3 4**	3 3
Rates of increase for deferred pensioners	**2 6**	2 3

Notes to the financial statements for the year ended 31 March 2013 (continued)

23. POST RETIREMENT OBLIGATIONS (continued)

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

Mortality rates

		31 March 2013 Years
Male currently age 65	Pension under £9,300 pa or pensionable pay under £35,000 pa	20 6
	Others	22.8
Male currently age 45	Pension under £9,300 pa or pensionable pay under £35,000 pa	23.0
	Others	25.0
Female currently age 65	Pension under £3,300 pa or pensionable pay under £35,000 pa	22 5
	Others	24 9
Female currently age 45	Pension under £3,300 pa or pensionable pay under £35,000 pa	25 0
	Others	27 3

Notes to the financial statements for the year ended 31 March 2013 (continued)

23 POST RETIREMENT OBLIGATIONS (continued)

Pension scheme liability at end of year

The fair value of the London Overground Schemes' assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were

	Expected rate of return %	**31 March 2013 £'000**	Expected rate of return %	31 March 2012 £'000
Equities	**6 9**	**56,741**	6 9	48,678
Government Bonds	**2 8**	**1,540**	3 1	2,451
Non-Government Bonds	**4 1**	**1,540**	4 6	-
Property	**6 9**	**-**	6 8	-
Other	**2 5**	**2,454**	2 5	707
Fair value of plan assets	**6 6**	**62,275**	6 7	51,836
Present value of scheme liabilities		**(100,249)**		(68,895)
Deficit in the scheme		**(37,974)**		(17,059)
Members' share of deficit		**15,190**		6,824
Deficit expected to be recovered after end of concession period		**22,784**		10,235
Employer's share of gross pension liability		**-**		-
Related deferred tax asset		**-**		-
Net pension liability		**-**		-

The amount of this net pension liability would have a consequential effect on reserves

Notes to the financial statements for the year ended 31 March 2013 (continued)

23 POST RETIREMENT OBLIGATIONS (continued)

Reconciliation of pension scheme liability

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Opening Pension Scheme liability	-	-
Employer's share of pension cost	(4,696)	(4,240)
Employer contributions	4,140	3,818
Actuarial gain recognised in the STRGL	556	422
Closing pension scheme liability	-	-

The actuarial gain recognised in the statement of total recognised gains and losses represents the Company's proportionate share of the experienced gains and losses arising on the scheme's liabilities and assets in the year Due to the elements of the scheme's deficit allocated to members and the proportion expected to be recovered after the end of the concession period it is not meaningful to allocate this amount between its constituent parts

Disclosed pension cost

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Employer's share of service cost	4,989	4,663
Employer's share of interest cost	2,438	2,368
Interest on pension adjustment	(542)	(617)
Employer's share of expected return on assets	(2,189)	(2,174)
Employer's share of pension cost	4,696	4,240

Changes in the present value of the defined benefit obligation

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Opening scheme liabilities	(68,895)	(62,942)
Service cost	(8,271)	(7,724)
Interest cost	(4,063)	(3,946)
Experience (losses) / gains on the scheme liabilities	(19,977)	5,400
Benefits paid	957	317
Present value of scheme liabilities	(100,249)	(68,895)

Notes to the financial statements for the year ended 31 March 2013 (continued)

23 POST RETIREMENT OBLIGATIONS (continued)

Reconciliation of value of assets

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Opening value of scheme assets	**51,836**	44,579
Expected return on assets	**3,649**	3,623
Gain / (Loss) on assets	**895**	(2,360)
Employer contributions	**4,140**	3,818
Member contributions	**2,712**	2,493
Benefits paid	**(957)**	(317)
Closing fair value of plan assets	**62,275**	51,836

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

Historical information in respect of the gross value of the scheme

	31 March 2013 £'000	31 March 2012 £'000	31 March 2011 £'000
Present value of scheme liabilities	**100,249**	68,895	62,942
Fair value of scheme assets	**62,275**	51,836	44,579
Gross deficit in the scheme	**(37,974)**	(17,059)	(18,363)
Experience loss / (gain) on scheme liabilities	**3,922**	(3,728)	2,416
Experience (gain) / loss on scheme assets	**(537)**	1,416	185

24. POST BALANCE SHEET EVENT

On 3 July 2013 RfL exercised its right under the Concession Agreement to instruct the Company to extend its driver only operations from the East London and Euston – Watford Lines to the rest of the network by 8 December 2013 The instruction sees 130 conductors at risk of redundancy The Company is currently consulting with staff representatives with the aim of mitigating the affects on them and redeploying as many of them into other vacant roles

25 CONTINGENT LIABILITIES

The Company has one performance bond with Bayerische Landesbank dated 21 December 2011 for £12,000,000, this bond expires at the end of the original concession and has been guaranteed by Deutsche Bahn AG, Germany

26 ULTIMATE PARENT COMPANY

The Company is owned and jointly controlled by DB Regio UK Limited and MTR Corporation Limited The Directors consider there to be no ultimate controlling party and no ultimate parent undertaking