Company Registration No 4356933

MERSEYRAIL ELECTRICS 2002 LIMITED

Report and Financial Statements

For the 52 weeks ended 8 January 2011

REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Andrew Heath
Dominic Booth
Peter Morton
Kevin Thomas
Bartholomeus Schmeink (The Netherlands)
Matt Brown
Lesley Batty
Jeroen Weimar (The Netherlands)

SECRETARY

Serco Corporate Services Limited

REGISTERED OFFICE

Rail House
Lord Nelson Street
Liverpool
Merseyside
L1 1JF

BANKERS

National Westminster Bank
Liverpool

Bank of Scotland
Leeds

Anglo Irish Bank
London

ING Bank Rotterdam
Rotterdam

Santander
London

SOLICITORS

Burges Salmon Solicitors
Narrow Quay House
Narrow Quay
Bristol
BS1 4AH

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Liverpool
United Kingdom

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 week period ended 8 January 2011

PRINCIPAL ACTIVITIES

In 2003 Merseyrail were awarded a 25-year concession to provide rail services on behalf of Merseytravel, the Merseyside PTE This singled out Merseyrail amongst other Train Operating Companies (TOCs), where average length contracts are between 7-10 years For this reason, Merseyrail are now in the enviable position of being able to take a long-term perspective on the investment and development of rail passenger services We strive to exceed the expectations of not only the people of Merseyside, but also the wider public transport community This is in line with the philosophy of its two 50 per cent shareholders Serco Group plc and Abellio (formerly known as NedRailways)

Merseyrail is an urban network of vital importance to the transport infrastructure of Liverpool and Merseyside and is one of the most intensively used networks in the UK, with over 800 train services daily (Monday to Saturday), with a reduced service of 350 train services on Sundays There are approximately 110,000 passenger journeys each weekday, with 37 million passenger journeys per annum Around 50% of passengers are daily users

The business operates 75 route miles in the Merseyside area bisected by the river Mersey The network has 67 stations, 66 of which are managed by Merseyrail, with terminal stations at Southport, Ormskirk, Kirkby and Hunts Cross to the North and New Brighton, West Kirby, Chester, and Ellesmere Port on the Wirral side of the river The network also includes 6 5 miles of underground track and 5 underground stations

The business operates with a fleet of 59 class 507/508 electric trains which underwent an extensive refurbishment in 2004 This included improved seating, advanced passenger information systems and on board CCTV security cameras

BUSINESS REVIEW

The directors are satisfied with the performance of the company during the period Turnover was £126,264,000, which was an increase of 1 46% on the previous period (2010 £124,453,000)

Profit on ordinary activities after tax was £7,613,000 an increase of 4 8% on 2010 (2010 £7,264,000)

Throughout 2011 the Moving Annual Average (MAA) for punctuality continued to reach new highs with 7 of 13 periods exceeding 96% Public Performance Measure (PPM) This resulted in Merseyrail being the best performing Train Operating Company (TOC) for 2011 with an end of year MAA of 95 3%

During the year Merseyrail retained its 100% Secure Station and Car Park accreditation from the Department of Transport (DfT) that we gained in 2010

Merseyrail have also recently attained Investors in Excellence accreditation, granted by North of England Excellence This confirms that we have reached the European Foundation for Quality Management standard in 31 areas covering Leadership, Change Management, People Management, Processes and Strategy Development

Merseyrail believe it is important to contribute to the improvement and well being of Merseyside's environment and community We were therefore very proud to win the Work Inspiration Award at the Business in the Community North West Regional Awards for its Business Class Partnership with Archbishop Beck Catholic Sports College in Walton Vale As part of our commitment to our community Merseyrail also support a local charity each year This year's charity was Woodlands Hospice and we were delighted to be able to raise £100,000 through the involvement of staff and stakeholders in fundraising events throughout the year

Merseyrail continue to be leading TOC on delivery of the National Station Improvement Programme (NSIP) schemes, a Department for Transport scheme During 2011 we completed works at our station at Waterloo including a further M-to-go retail outlet

Merseyrail also received a £1,000,000 grant from Cycling England, funded by the Department of Transport for the building of cycle facilities on our Network During the year we opened facilities at 18 stations providing 700 secure cycle points The flagship location at Southport was opened in August 2010 by Chris Boardman CBE, Olympic Cycle gold medallist

From a customer perspective we have reached a National Passenger Survey (NPS) overall satisfaction score of 93%, the highest in the industry (NPS survey autumn 2010)

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

In the penod ended 8th January 2011 the company has invested £1,737,000 in capital improvements across the network to enhance our station and staff facilities

At the penod end the cash balance stood at over £11,299,000 (2010 £8,331,000) with a further £2,000,000 on short term investment The liquidity position has remained strong through the penod

OUTLOOK

Throughout the coming months Merseyrail will continue, in partnership with Merseytravel, and others, to make improvements to the network and service, to enable the challenges of the coming year to be met Capital expenditure is expected to be in line with previous penods Third party funding will be used for further refurbishments at Liverpool Central Station which is our busiest station for passenger numbers

PRINCIPAL RISKS AND UNCERTAINTIES

The 25 year concession means that the business has certainty and is therefore able to take a long-term view on investment There are no rail competitors running over the same routes In common with most train operators the main competitor to the business is the car, taxis and bus operators To mitigate the risks from these pressures, Merseyrail are working with local and national bodies to ensure that services are provided that meet or exceed the requirements of our stakeholders The long term nature of the contract means that Merseyrail are able to invest in improvements to the network that are beneficial and attractive to stakeholders

The economic climate in the region has impacted on Merseyrail There is a higher degree of uncertainty around patronage, and the leadership team within Merseyrail are focused on close monitoring of all relevant KPIs to ensure any required remedial action in response to the emerging conditions is taken

GOING CONCERN

The nature of the Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator and having reviewed the budgets and forecasts for a 12 month penod from the date of signing the financial statements, the directors are confident that the business will continue to be cash generative The Directors believe this will be achieved without the need for third party funding in the foreseeable future, despite the current economic uncertainty Thorough cash management processes are followed Accordingly, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for its foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

DIVIDENDS AND TRANSFERS TO RESERVES

The profit for the penod after taxation was £7,613,000 (2010 £7,264,000)

A dividend of £7,252,000 for the penod has been paid (2010 £6,859,000)

DIRECTORS' REPORT (continued)

DIRECTORS

The directors who served during this period and thereafter are listed below

Andrew Heath	
Kevin Thomas	
Dominic Booth	
Peter Morton	
Bartholomeus Schmeink	
Alan Wilson	(resigned 31 March 2010)
Matt Brown	(appointed 1 March 2010)
David Temple	(resigned 1 March 2010)
Lesley Batty	
Jeroen Weimar	(appointed 31 March 2010)

CHARITABLE CONTRIBUTIONS

During the period, the company made charitable donations and sponsorship payments of £96,337 (2010 £147,485) principally to local charities and groups serving the communities in which the company operates

EMPLOYEE INVOLVEMENT AND DISABLED EMPLOYEES

The company gives full and fair consideration to applications for employment from disabled people having regards to their particular aptitudes and abilities Efforts are made to continue the employment of those who become disabled during their employment, and training, career development and promotion is, as far as possible, identical for all employees in accordance with their skills and abilities

The company also has a policy of communicating and consulting with its managers and employees to ensure their active involvement

AUDITOR

Deloitte are deemed to be re-appointed under section 487(2) of the Companies Act 2006

STATEMENT OF DISCLOSURE TO THE AUDITOR

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

a) so far as each director is aware there is no relevant audit information of which the company's auditor is unaware, and

b) the director has taken all the 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 provisions of s 418 of the Companies Act 2006

Approved by the Board of Directors
and signed on behalf of the Board

P. Morton

Peter Morton

Director
25th March 2011

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

- select suitable accounting policies and then apply them consistently,
- make judgments 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 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 MERSEYRAIL ELECTRICS 2002 LIMITED

We have audited the financial statements of Merseyrail Electrics 2002 Limited for the 52 week period ended 8 January 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 24 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

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 8 January 2011 and of its profit for the period 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 period 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

Christopher Powell FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Liverpool, United Kingdom
22 March 2011

PROFIT AND LOSS ACCOUNT
52 weeks ended 8 January 2011

	Note	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
TURNOVER	2	126,264	124,453
COST OF SALES			
Other cost of sales		(114,352)	(113,913)
Exceptional costs	4	(1,327)	-
Total cost of sales		(115,679)	(113,913)
OPERATING PROFIT	3	10,585	10,540
Interest receivable and similar income	5	127	110
Interest payable and similar charges	6	(190)	(194)
Other finance income/(expense)	20	100	(360)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,622	10,096
Tax on profit on ordinary activities	8	(3,009)	(2,832)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX FOR THE PERIOD	18,19	7,613	7,264

All amounts relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
52 weeks ended 8 January 2011

	Note	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Profit for the financial period		7,613	7,264
Actuarial loss relating to pension scheme	20	(389)	(874)
Deferred tax attributable to actuarial loss		105	245
Adjustment due to change in deferred tax rate		(66)	-
Total recognised gains and losses for the period		7,263	6,635

BALANCE SHEET
As at 8 January 2011

	Note	8 January 2011 £'000	9 January 2010 £'000
FIXED ASSETS			
Intangible assets	10	2,749	2,905
Tangible assets	11	8,730	8,146
		11,479	11,051
CURRENT ASSETS			
Stocks	12	1,360	1,392
Debtors	13	6,118	5,586
Investments	14	2,000	5,500
Cash at bank and in hand		11,299	8,331
		20,777	20,809
CREDITORS: amounts falling due within one year	15	(22,227)	(22,108)
NET CURRENT LIABILITIES		(1,450)	(1,299)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,029	9,752
CREDITORS: amounts falling due after more than one year	16	(2,513)	(2,906)
NET ASSETS BEFORE PENSION LIABILITY		7,516	6,846
Pension liability	20	(5,372)	(4,713)
NET ASSETS AFTER PENSION LIABILITY		2,144	2,133
CAPITAL AND RESERVES			
Called-up share capital	17	-	-
Profit and loss account	18	2,144	2,133
TOTAL SHAREHOLDER'S FUNDS	19	2,144	2,133

The financial statements of Merseyrail Electrics 2002 Limited, company number 4356933 were approved by the Board of Directors on 25th March 2011

Signed on behalf of the Board of Directors

P. Morton

Peter Morton

Director

NOTES TO THE ACCOUNTS
52 weeks ended 8 January 2011

1 ACCOUNTING POLICIES

The pnncipal accountmg policies are summansed below They have been applied consistently throughout the current and previous penod

Basis of preparation

The financial statements are prepared under the histoncal cost convention in accordance with applicable law and United Kingdom accounting standards

Going concern

The nature of the Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator and having reviewed the budgets and forecasts for a 12 month penod from the date of signing the financial statements, the directors are confident that the business will continue to be cash generative The directors believe this will be achieved without the need for third party funding in the foreseeable future Accordingly, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for its foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Turnover

Passenger income is included in turnover

Concession payments relate to amounts received from Merseyside Passenger Transport Executive (MPTE) under the Concession Agreement to operate Merseyrail trains Other turnover arises from the provision of ancillary services to external parties

All turnover is recognised at the point at which the service is provided

Goodwill and intangible fixed assets

For acquisition of a business, purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life of 25 years The directors regard 25 years as a reasonable maximum for the estimated useful life of goodwill since it coincides with the life of the rail concession (25 years) and also it is difficult to make projections exceeding this period

Other intangible fixed assets are capitalised in the year they are incurred and amortised over their useful economic lives The concession costs incurred in the period ended 3 January 2004 (shown in note 10) are amortised over the life of the concession (25 years)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment

Depreciation is provided at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life at the following annual rate

Leasehold buildings	2% - 10% per annum
Plant and machinery, motor vehicles and fixtures and fittings	4% - 33% per annum

No depreciation is provided on land or assets under construction

Taxation

Current taxation is provided at the 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

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

1. ACCOUNTING POLICIES (continued)

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases The excess of the lease payments over the recorded lease obligations are treated as finance charges which are amortised over the lease term Rental costs under operating leases are charged to profit and loss account in equal amounts over the periods of the leases

Grants

Capital grants and other contributions received towards the cost of tangible fixed assets are included as deferred income in the balance sheet and credited to the profit and loss account over the life of the asset Revenue grants are credited to the profit and loss account to match off with the expenditure to which they relate

Stocks

Stock is stated at the lower of cost and net realisable value Cost includes materials and consumable goods Provision is made for obsolete, slow-moving and defective items where appropriate

Current asset investments

Investments held as current assets are stated at the lower of cost and market value at the balance sheet date

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Pension costs

Pension costs are accounted for in accordance with Financial Reporting Standard 17 "Retirement Benefits" For the defined benefit pension scheme, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments They are included as part of staff costs Past service costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs The interest cost and the expected return on assets are shown as a net amount of other financial costs or credits adjacent to interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax A "franchise adjustment" is made to the deficit on this basis The franchise adjustment is the projected deficit at the end of the franchise term, which the company will not be required to fund, discounted back to present value

The defined benefit pension scheme is funded, with the assets held separately from those of the company, in separate trustee administered funds Pension scheme assets are measured at bid value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

1. ACCOUNTING POLICIES (continued)

Cash flow statement

The company is exempt under Financial Reporting Standard 1 from including a Cash flow Statement in its accounts as it is a wholly owned subsidiary of Merseyrail Services Holding Company Limited, a company incorporated in the United Kingdom, which has included a Consolidated Cash flow Statement in its financial statements

2. TURNOVER

All turnover originates in the United Kingdom and derives from passenger income and other services

3. OPERATING PROFIT

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Operating profit is stated after charging:		
Loss on disposal of fixed asset	1	2
Depreciation and amortisation		
- intangible fixed assets	156	154
- tangible fixed assets	1,152	1,117
Operating lease rentals		
- plant and machinery	11,916	11,640
- access charges payable to Network Rail	10,613	13,814
- land and buildings	5,665	6,418

The analysis of auditors' remuneration is as follows

Fees payable to the company's auditors for the audit of the company's annual accounts	50	49
Fees payable to the company's auditors and their associates for other services to the group		
- the audit of the financial statements pursuant to legislation	3	2
	53	51

There were no non-audit services provided during the period (2010 same)

4. EXCEPTIONAL COSTS

In the prior year, there was an ongoing dispute within the industry between several Train Operating Companies ('TOCs') and the British Transport Police Association (BTPA) regarding the charging methodology for their Transport Police Services The principal issue related to changes in the charging basis introduced by the BTPA with effect from 1 April 2007, which were being disputed by a number of TOCs on the basis that the changes were unlawfully implemented The dispute was settled on the 12 March 2010, which resulted in the company making a payment of £1,327,004 to the BTPA in settlement of prior period Transport Police services

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

5 INTEREST RECEIVABLE AND OTHER INCOME

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Bank interest	127	110
	127	110

6. INTEREST PAYABLE AND OTHER CHARGES

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Other interest	-	4
Loan interest	90	90
Finance lease interest	100	100
	190	194

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Directors' remuneration		
Other emoluments	583	569
Pension contributions	47	40
	630	609
Remuneration of the highest paid director	239	233

The company contributed £2,615 (2010 £2,268) to the pension scheme of the highest paid director

The number of directors who were members of the defined benefit pension scheme at the period end was 1 (2010 1)

During the year Peter Morton and Kevin Thomas, directors of the company, were granted 6,270 shares in Serco Group plc at £0 02 option price as part of a performance share plan scheme During the year, these same directors exercised 2,843 shares at £0 02 option price There was no material difference between the grant option price and fair value price at the year end

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	52 weeks ended 8 January 2011 No	53 weeks ended 9 January 2010 No.
Average number of persons employed (including directors)		
Operational	898	869
Engineering and maintenance	142	137
Administration and support	135	141
	1,175	1,147

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Staff costs during the period (including directors)		
Wages and salaries	36,373	34,832
Social security costs	2,554	2,429
Pension costs – defined benefit scheme (see note 20)	3,480	2,460
Pension costs – personal pension schemes	37	30
	42,444	39,751

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Corporation tax		
United Kingdom corporation tax at 28% (2010 28%) based on the profit for the period	(3,188)	(2,989)
Adjustment in respect of prior period	77	47
	(3,111)	(2,942)
Deferred tax		
Timing differences	20	20
Adjustment in respect of prior period	(31)	72
Impact on deferred tax of change in tax rate	(2)	-
FRS17 adjustments	115	18
Total tax on profit on ordinary activities	(3,009)	(2,832)

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The current corporation tax charge on profit on ordinary activities is higher (2010 higher) than that resulting from applying the standard rate of corporation tax in the UK of 28% (2010 28%) The differences are explained below

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Profit on ordinary activities before tax	10,622	10,096
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2010 28%)	(2,974)	(2,827)
Effects of		
Expenses not deductible for tax purposes	(194)	(143)
Short term timing differences	(7)	3
Depreciation in excess of capital allowances	(13)	(22)
Adjustment in respect of prior period	77	47
Current tax charge for the period	(3,111)	(2,942)

Movement on deferred taxation balance in the period:

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Opening asset/(liability)	97	5
Prior year adjustment	(31)	72
Current year movement	18	20
Closing asset	84	97

Analysis of deferred tax balance:

	8 January 2011 £'000	9 January 2010 £'000
Capital allowances in excess of depreciation	12	30
Short term timing difference	72	67
Deferred tax asset	84	97

Recoverability of the above deferred tax asset is dependent upon future taxable profits

The company trades profitability and therefore it is considered more likely than not that there will be sufficient future trading profits against which the timing differences giving rise to the deferred tax asset will reverse

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

9. EQUITY DIVIDENDS

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Equity dividends paid of £3,626,000 per share (2010 £3,429,500)	7,252	6,859

10. INTANGIBLE FIXED ASSETS

	Concession costs £'000	Goodwill £'000	Total £'000
Cost			
At 9 January 2010 and 8 January 2011	726	3,190	3,916
Amortisation			
At 9 January 2010	187	824	1,011
Charge for the year	29	127	156
At 8 January 2011	216	951	1,167
Net book value			
At 8 January 2011	510	2,239	2,749
At 9 January 2010	539	2,366	2,905

11. TANGIBLE FIXED ASSETS

	Leasehold land and buildings £'000	Assets in the course of construction £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 9 January 2010	3,149	12	5,985	3,218	12,364
Additions	-	1,334	162	241	1,737
Disposals	-	-	(23)	-	(23)
Transfers	-	(911)	36	875	-
At 8 January 2011	3,149	435	6,160	4,334	14,078
Accumulated depreciation					
At 9 January 2010	358	-	2,583	1,277	4,218
Charge for the year	109	-	672	371	1,152
Disposals	-	-	(22)	-	(22)
At 8 January 2011	467	-	3,233	1,648	5,348
Net book value					
At 8 January 2011	2,682	435	2,927	2,686	8,730
At 9 January 2010	2,791	12	3 402	1,941	8,146

The cost of assets held by the company under finance leases at 8 January 2011 was £2,543,000 (2010 £2,543,000) The accumulated depreciation provided for on those assets at 8 January 2011 was £1 290,000 (2010 £1,049,000)

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

11. TANGIBLE FIXED ASSETS (continued)

The costs of assets held by the company financed by a government grant at 8 January 2011 was £835,000 (2010 £0) The accumulated depreciation provided for on those assets at 8 January 2011 was £nil (2010 £nil)

12. STOCKS

	8 January 2011 £'000	9 January 2010 £'000
Raw materials and consumables	1,147	1,102
Work in progress	213	290
	1,360	1,392

13 DEBTORS

	8 January 2011 £'000	9 January 2010 £'000
Trade debtors	1,637	2,057
VAT	1,845	1,350
Other debtors	648	324
Prepayments and accrued income	1,904	1,758
Deferred tax asset (see note 8)	84	97
	6,118	5,586

14. INVESTMENTS

	8 January 2011 £'000	9 January 2010 £'000
Short term deposits and investments	2,000	5,500

Short term investments comprise of deposits for up to 4 months which are readily convertible to known amounts of cash

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	8 January 2011 £'000	9 January 2010 £'000
Trade creditors	10,475	11,951
Amounts owed to parent undertaking	949	580
Corporation tax payable	1,601	1,756
Other creditors	3,789	3,004
Other taxation and social security	1,000	941
Accruals and deferred income	4,021	3,484
Obligations under finance leases	241	241
Bank loans	151	151
	22,227	22,108

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

16 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	8 January 2011 £'000	9 January 2010 £'000
Obligations under finance leases	1,011	1,252
Bank loans	1,502	1,654
	2,513	2,906

Obligations under finance leases		
Within one year	241	241
Within two to five years	783	953
After five years	228	299
	1,252	1,493

Loans are repayable as follows		
Within one year	151	151
Within two to five years	606	606
After five years	896	1,048
	1,653	1,805

Bank loans are secured on the assets to which they relate

The bank loans bear interest at a fixed rate of 6 6945%

17 CALLED-UP SHARE CAPITAL

	8 January 2011 £	9 January 2010 £
Called-up, allotted and fully paid		
2 ordinary shares of £1 each	2	2

18. RESERVES

	Profit and loss account £'000
As at 9 January 2010	2,133
Profit for the financial period	7,613
Dividends paid (see note 9)	(7,252)
Actuarial gains and losses (net)	(350)
As at 8 January 2011	2,144

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Profit for the financial period	7,613	7,264
Dividends paid (see note 9)	(7,252)	(6,859)
Other recognised gains and losses relating to the period (net)	(350)	(629)
Net addition to/(reduction) in shareholder's funds	11	(224)
Opening shareholder's funds	2,133	2,357
Closing shareholder's funds	2,144	2,133

20. PENSION ARRANGEMENTS

Pension commitments

The company operates a Section of the Railways Pension Scheme ("the Section") This provides benefits for employees based on final pensionable pay The members are expected to meet 40% of the cost of the emerging benefits The employer made contributions of £2,956,000 in the period (2010 £2,754,000) The expected employer contributions for the next financial period are estimated at £3,300,000

On 8 July 2010, the UK Minister for Pensions announced the Government's intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for determining the pension increases to be applied to the statutory index-linked features of retirement benefits The Rules of the Section refer directly to the relevant legislation, rather than RPI inflation, in respect of increases to deferred pensions and pensions in payment The Company has therefore allowed for increases to pensions in payment and deferment in line CPI inflation

A CPI inflation of 2 9% p a has been assumed at 8 January 2011 This has been set by making a deduction of 0 5% p a to the RPI inflation assumption

Actuarial Assumptions

The full actuarial valuation at 31 December 2007 was updated to 8 January 2011 and 9 January 2010 by a qualified actuary, using the following assumptions in relation to future experience

	8 January 2011	9 January 2010	3 January 2009
Discount rate	5 30%	5 70%	6 40%
Rate of increase in salaries	3 90%	4 00%	3 15%
Rate of increase in deferred pensions	2 90%	3 50%	2 65%
Rate of increase in pensions in payment	2 90%	3 50%	2 65%
Inflation assumption	3 40%	3 50%	2 65%
Long term rate of return expected	6 36%	6 74%	6 36%

In addition to the above rates of increase in salaries, a scale of promotional salary increases is assumed

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

20. PENSION ARRANGEMENTS (continued)

The mortality assumptions used were

		8 January 2011	9 January 2010
Male aged 65 (current life expectancy)	Pension under £8,500 pa or pensionable pay under £30,000 pa	19 8	19 8
	Others	21 5	21 5
Male aged 45 (life expectancy at age 65)	Pension under £8,500 pa or pensionable pay under £30,000 pa	22 2	22 2
	Others	23 7	23 7
Female aged 65 (current life expectancy)	Pension under £8,500 pa or pensionable pay under £30,000 pa	21 7	21 7
	Others	22 7	22 7
Female aged 45 (life expectancy at age 65)	Pension under £8,500 pa or pensionable pay under £30,000 pa	23 2	23 2
	Others	24 2	24 2

The net liability of the group is summarised as follows

	8 January 2011 Value £'000	9 January 2010 Value £'000	3 January 2009 Value £'000	5 January 2008 Value £'000	6 January 2007 Value £'000
Total market value of assets	92,916	81,766	69,802	89,300	81,367
Present value of scheme liabilities	(128,774)	(120,155)	(79,146)	(96,141)	(86,367)
Members' share of deficit	14,343	15,356	3,738	2,736	2,000
Franchise adjustment	14,156	16,487	-	-	-
Deficit in scheme	(7,359)	(6,546)	(5,606)	(4,105)	(3,000)
Related deferred tax asset	1,987	1,833	1,570	1,149	900
Net pension liability	(5,372)	(4,713)	(4,036)	(2,956)	(2,100)

Fair value of assets

The assets in the scheme were

	8 January 2011 %	8 January 2011 Value £'000	9 January 2010 %	9 January 2010 Value £'000
Equities	70 1	65,115	72 0	58,834
Bonds/Gilts	10 6	9,881	9 9	8,098
Property	9 3	8,667	8 6	7,008
Cash and other	10 0	9,253	9 5	7,826
	100%	92,916	100%	81,766

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

20. PENSION ARRANGEMENTS (continued)

Amounts included within operating profit:	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Current service cost	3,480	2,460
Brass contributions	253	262
Total included within operating profit	3,733	2,722
Amounts included as other finance (income)/costs:		
Expected return on scheme assets	(3,360)	(2,700)
Interest cost on scheme liabilities	4,200	3,060
Interest on franchise adjustment	(940)	-
Net finance return	(100)	360

History of experience gains and losses

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000	52 weeks ended 5 January 2008 £'000	52 weeks ended 6 January 2007 £'000
Difference between actual and expected return on scheme assets - *monetary amount of closing scheme assets*	1,823	2,974	(16,954)	(88)	3,523
Experience gains arising on scheme liabilities - *monetary amount of closing scheme liabilities*	1,067	(700)	(400)	(440)	53
Total pension cost recognised in the Statement of Total Recognised Gains and Losses	(389)	(874)	(1,372)	(1,650)	5,576

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

20. PENSION ARRANGEMENTS (continued)

History of experience gains and losses (continued)

Analysis of the change in benefit obligation during the period	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Benefit obligation at beginning of the period	120,155	79,146
Current service cost – Employer (including Brass)	3,733	2,722
Current service cost - Employee	2,320	1,640
Interest cost - Employer	4,200	3,060
Interest cost - Employee	2,800	2,040
Actuarial (gains)/losses	(1,759)	33,891
Benefits paid (including Brass)	(2,675)	(2,344)
Benefit obligation at end of period	128,774	120,155

Analysis of the change in plan assets during the period	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Fair value of plan assets at beginning of the period	81,766	69,802
Expected return on plan assets – Employer	3,360	2,700
Expected return on plan assets – Employee	2,240	1,800
Actuarial gains	3,039	4,956
Employer contribution	2,956	2,754
Employer Brass matching contributions	253	262
Member contributions	1,977	1,836
Benefits paid (including Brass)	(2,675)	(2,344)
Fair value of plan assets at end of period	92,916	81,766

21. OPERATING LEASE COMMITMENTS

At 8 January 2011 the company was committed to making the following payments during the next year in respect of operating leases

	Land and buildings 8 January 2011 £'000	Other 8 January 2011 £'000	Land and buildings 9 January 2010 £'000	Other 9 January 2010 £'000
Leases which expire				
Within one year	-	37	1,186	34
Within two to five years	5,306	7,940	-	7,824
After five years	421	11 945	418	11,374
	5,727	19,922	1,604	19,232

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

22. CAPITAL COMMITMENTS

	8 January 2010 £'000	9 January 2010 £'000
Contracted for but not provided in the financial statements	31	244

23. RELATED PARTY TRANSACTIONS

The company's related parties, as defined by Financial Reporting Standard 8, the nature of the relationship and the effect of the transactions with them are summarised below

Serco Group plc	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Other trading transaction income salary recharges	(10)	(39)
Executive salaries and expense recharges (includes non directors)	401	330
Dividends paid and proposed	3,626	3,430
Other trading transaction costs	451	752

All of the above expenses/(income) were payable to/(receivable from) Serco Group plc and its subsidiaries which are related parties by virtue of Serco Group plc owning 50% of the issued share capital of the company At the period end, the company owed Serco Group plc £60,462 (2010 £49,761) At the period end, the company was owed £11,750 by Serco Group plc (2010 £nil)

NV Nederlandse Spoorwegen	52 weeks ended 8 January 2010 £'000	53 weeks ended 9 January 2010 £'000
Other trading transaction income salary recharges	(23)	(57)
Executive salaries and expense recharges (includes non directors)	294	406
Dividends paid and proposed	3,626	3,430
Other trading transaction costs	30	-

All of the above expenses were payable to NV Nederlandse Spoorwegen and its subsidiaries which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company At the period end, the company owed NV Nederlandse Spoorwegen £1,232,221 (2010 £377,819), with £1,192,218 of this balance relating to consortium tax relief which is held within Corporations Tax on the balance sheet (2010 £357,317) At the period end, the company was owed £11,320 by NV Nederlandse Spoorwegen (2010 £nil)

24. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The immediate parent company of Merseyrail Electrics 2002 Limited is Merseyrail Services Holding Company Limited Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ

The ultimate and controlling parties of Merseyrail Electrics 2002 Limited are NV Nederlandse Spoorwegen and Serco Group plc Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands Copies of the financial statements of Serco Group plc are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY The parent undertaking of the smallest group, which includes the company and for which group accounts are prepared is Merseyrail Services Holding Company Limited, a company incorporated in the UK Copies of the financial statement of Merseyrail Services Holding Company Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ