Merseyrail Electrics 2002 Limited

Report and Financial Statements

4TH January 2014

Directors

A Heath
D Booth
J Bowen
D Stretch
J Edwards
K Thomas
M P Spaargaren
J Chaudhry
G Shilston

Secretary

Serco Corporate Services Limited

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Bankers

National Westminster Bank
Liverpool

Barclays Bank
London

Santander
London

Solicitors

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

Registered Office

Rail House
Lord Nelson Street
Liverpool
Merseyside L1 1JF

Strategic report

The directors present their strategic report for the 52 weeks ended 4 January 2014.

Review of the business

In 2003, Merseyrail was awarded a 25-year concession to provide rail services on behalf of Merseytravel, the Merseyside passenger transport executive. This distinguishes Merseyrail from other train operating companies (TOCs), whose contracts average between seven and ten years. For this reason, Merseyrail is 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 our two 50 per cent shareholders, Serco Group plc and Abellio.

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 per cent 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 five underground stations.

The business operates with a fleet of 59 class 507/508 electric trains which are currently undergoing an extensive refurbishment costing £8.5m.

The directors are satisfied with the performance of the company during the period. Turnover was £144,853,000 which was an increase of 7.1 per cent on the previous period (52 weeks ended 5 January 2013 – £135,224,000).

By the period ending 4 January 2014, the cash balance was over £17,309,000 (52 weeks ended 5 January 2013 – £9,309,000) with no cash (52 weeks ended 5 January 2013 – £2,500,000) on short term investment. The liquidity position has remained strong throughout the period. At the end of this period, the company had invested £1.0 million in capital improvements across the network to enhance our station and staff facilities and £1.1 million on fleet improvements as part of the £8.5 million fleet refurbishment project.

2013 saw the continuation of the £40 million investment to refurbish all five underground stations, with the renewal of both James Street and Lime Street. Following the closure of platform 1 of James Street in the last part of 2012, platform 3 of this station closed for four months from the beginning of the year til April. Over this period, floors and the surrounding corridors were re-tiled and the platforms and concourse received new enamel cladding. Lime Street then closed from April to August to allow similar work to take place. The Mtogo was upgraded, too.

The aim of these renovations was to create more agreeable environments for passengers, making stations lighter and fresher. Costs were covered by Network Rail, who paid for the platform work at both stations and Merseytravel, who paid for the cross track signage, as well as for improvements to the concourse at Lime Street.

To mark the tenth anniversary of the concession in the summer, a ticket promotion was launched, offering numerous prizes for customers, the main one being ten years' free travel on the network. There was also a party for customers at Liverpool Central, including activities for children. In the autumn, a reception for senior shareholders, Merseytravel contacts and the media was held at Rock Ferry, involving the naming of a train, Merseyrail – celebrating the first ten years 2003-2013. This promotional event resulted in extensive positive media coverage.

During this year, Merseyrail enjoyed several firsts. In August, we introduced Bike & Go, the UK's first national bike scheme at 20 stations across three networks, our own, Northern Rail and Abellio Greater

Strategic report

Review of the business (continued)

Anglia. Bike & Go offers rail passengers the opportunity to complete the final phase of their journey by bicycle and is low cost, rapid and convenient. In October, we were the first rail operator to introduce contactless payment, and 8 per cent of all customer transactions made by card are now contactless. To date, ca 40,000 sales have been recorded by this method of payment. Merseyrail was awarded the 'Putting the Customer First' accreditation mark, the national standard for customer service at the end of the year. This is the first time a transport operator has received such an accolade.

We ended the year 2013 with a Public Performance Measure (PPM) of 95.6 per cent, a slight improvement on 2012 95.3%. This is an excellent score which maintains our position in the top three of the national PPM league, and was achieved despite a difficult autumn period in which poor railhead adhesion over a sustained period affected train performance. We also bore the brunt of some exceptional infrastructure failures.

Merseyrail continues to work under the principal of an 'Alliancing Framework' with Network Rail to formalise and enhance the collaboration between the two organisations and develop joint performance improvements.

In the most recent National Rail Passenger Survey (Autumn 2013), Merseyrail scored 93 per cent, which was the highest score of any franchised TOC. Merseyrail also secured the highest individual scores of any TOC in several areas relating to the provision of ticket buying facilities, availability and attitude of staff, frequency of service, overall station environment and value for money. These have all been areas of focus in the business and it is pleasing to see this reflected in the scores.

Merseyrail retained its 100 per cent Secure Station and Car Park accreditation from the Department of Transport gained in 2010 and we have installed phase 2 of our secure cycle storage that now provides a managed scheme to securely store cycles at 65 per cent of our stations.

Merseyrail continues to value its staff and actively invest in both learning opportunities and health and well-being. We were awarded NHS Charter status for supporting health and wellbeing in the workplace, the first train operating company to achieve this. We supported employees who took part in the Global Corporate Challenge in 2013, virtually competing against over 37,000 teams across the globe, promoting individual and collective responsibility for health and well-being.

In partnership with our trade union employee learning representatives and Merseytravel, we supported the skills for life agenda throughout the year and encouraged employee participation of the six book challenge, learning at work month & family learning week.

We remain committed to employee engagement. Our reward and recognition scheme has received 762 nominations since it was launched and 96 per cent of our employees have registered on the site.

Similarly, we are very serious about our role in the community and have a very active programme of community engagement. 2013 was a successful year for Merseyrail in this regard and saw the business raise a lot of money for charity.

Merseyrail's charity of the year was St Joseph's Hospice, and we were able to raise £65,000 for it, thanks to staff and stakeholders and through fundraising events throughout the year. Staff also participated in walks, cycle challenges, Iron man competitions, staff fun days, a ladies football tournament and many other activities. Over the last ten years, we have donated over £565,000 to our chosen charities.

Our station adoption programme continues to flourish with more schemes starting at Cressington, Aigburth and Town Green. This brings the total number of stations in the programme to 40. Our Volunteers at Little Sutton and Ellesmere Port were delighted when their stations were jointly awarded as the Best Small Station Adoption Schemes in the UK at the Annual Community Rail Awards.

Merseyrail continues to work with local community groups, health organisations and schools across the region. We continue to raise the profile of health awareness by actively communicating key national health campaigns to all our staff (Stoptober, Movember etc.) and together with the local health professionals, organised health awareness clinics at Liverpool Central for our passengers. In November and December 2013 we held such clinics for the Head and Neck Cancer (Aintree Hospital), Lung Cancer

Strategic report

Review of the business (continued)

(Royal Liverpool Hospital and Linda McCartney centre) and Nephrology (Kidney) Units, at Aintree University hospital. This secured excellent coverage in the local press and resulted in hospital referrals for several passengers.

To improve our business processes, we continue to work with the British Quality Foundation. In 2013, we submitted an entry to the North of England Excellence for the Sustainability Award and Customer Service Award. We were given finalist status for the Sustainability Award and were highly commended for the Customer Service Award.

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.

On behalf of the Board

Jeremy Bowen
Director
20th March 2014

Directors' report

Registered No. 4356933

The directors present their report for the 52 weeks ended 4 January 2014.

Results and dividends

The profit for the year after taxation amounted to £11,649,000 (52 weeks ended 5 January 2013 – profit of £10,770,000). The directors recommend a final dividend £13,965,000 (52 weeks ended 5 January 2013 – £13,037,000).

Directors

The directors who served the company during the year were as follows:

A Heath	
D Booth	
J Edwards	
J Bowen	
D Temple	(resigned 24 May 2013)
J Roberts	(resigned 19 February 2014)
J Chaudhry	
J Brown	(resigned 1 November 2013)
M P Spaargaren	
D Stretch	(appointed 15 May 2013)
K Thomas	(appointed 23 December 2013)
G Shilston	(appointed 19 February 2014)

Future developments

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. In particular we were advised on the 17 January 2013 that the extension to the current lease agreement between Merseytravel and Angel trains has been approved by the Merseytravel Finance Committee so now only relevant signatures are required. This has allowed the release of funds of £5.5m to carry out the fleet refurbishment works. The agreement will extend the lease on the current fleet of 507/508 units to December 2018, with an option to extend to December 2019.

Looking further forward Merseytravel are investigating new fleet options and we will be working in partnership with them in this area.

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 period 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.

Directors' report

Charitable contributions

During the period, the company made charitable donations and sponsorship payments of £40,033 (52 weeks ended 5 January 2013 – £41,659) 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.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Jeremy Bowen
Director
20th March 2014

Statement of directors' responsibilities

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 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 auditors' report

to the members of Merseyrail Electrics 2002 Limited

We have audited the financial statements of Merseyrail Electrics 2002 Limited for the 52 weeks ended 4 January 2014 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 set out on page 7, 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 4 January 2014 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Merseyrail Electrics 2002 Limited

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Gary Harding (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
4 April 2014

Profit and loss account

for the period ended 4 January 2014

	Notes	52 weeks ended 4 January 2014 £000	52 weeks ended 5 January 2013 £000
Turnover	2	144,853	135,224
Cost of sales		(130,192)	(121,400)
Operating profit	3	14,661	13,824
Interest receivable and similar income	6	130	199
Interest payable and similar charges	7	(157)	(161)
Other finance income		590	670
Profit on ordinary activities before taxation		15,224	14,532
Tax	8	(3,575)	(3,762)
Profit for the financial period	18	11,649	10,770

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the period ended 4 January 2014

	Note	52 weeks ended 4 January 2014 £000	52 weeks ended 5 January 2013 £000
Profit for the financial period		11,649	10,770
Actuarial (loss)/profit relating to pension scheme	21	(1,335)	1,615
Deferred tax attributable to actuarial (loss)/profit		307	(404)
Adjustment due to change in deferred tax rate		(132)	(54)
Total recognised gains and losses for the period		10,489	11,927

Balance sheet

at 4 January 2014

	Notes	*4 January 2014 £000*	*5 January 2013 £000*
Fixed assets			
Intangible assets	10	2,282	2,438
Tangible assets	11	9,090	9,025
Investments	12	–	–
		11,372	11,463
Current assets			
Stocks	13	1,684	1,695
Debtors	14	8,828	9,294
Investments	12	–	2,500
Cash at bank and in hand		17,309	9,309
		27,821	22,798
Creditors: amounts falling due within one year	15	(33,777)	(26,499)
Net current liabilities		(5,956)	(3,701)
Total assets less current liabilities		5,416	7,762
Creditors: amounts falling due after more than one year	16	(1,441)	(1,746)
Net assets before pension liability		3,975	6,016
Pensions	21	(3,523)	(2,088)
Net assets after pension liability		452	3,928
Capital and reserves			
Called-up share capital	17	–	–
Profit and loss account	18	452	3,928
Shareholders' funds	19	452	3,928

The financial statements of Merseyrail Electrics 2002 Ltd were approved by the Board of Directors on 20th March 2014.

Jeremy Bowen

Director

Notes to the financial statements

at 4 January 2014

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Going concern

The Merseyrail Concession Agreement with Merseyside Passenger Transport Executive (MPTE) 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 period 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.

Statement of cash flows

The company is exempt under FRS 1 from including a statement of cash flows in its financial statements as it is a wholly owned subsidiary of Merseyrail Services Holding Company Limited, a company incorporated in the United Kingdom, which has included a group statement of cash flows in its financial statements.

Goodwill

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.

Intangible fixed assets

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 (note 10) are amortised over the life of the concession (25 years).

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

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

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements

at 4 January 2014

1. Accounting policies (continued)

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.

Investments

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

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.

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.

Deferred taxation

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 have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is 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 on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to profit and loss account on a straight-line basis over the lease term.

Notes to the financial statements

at 4 January 2014

1. Accounting policies (continued)

Pensions

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.

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.

2. Turnover

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

Notes to the financial statements

at 4 January 2014

3. Operating Profit

This is stated after charging:

			52 weeks ended 4 January 2014 £000	52 weeks ended 5 January 2013 £000
Auditors' remuneration				
Fees payable to the company's auditors for the audit of the company's annual financial statements			43	41
Fees payable to the company's auditors and their associates for other services to the group				
	–	the tax services of the company's subsidiaries	10	9
	–	other services	7	7
Loss on disposal of fixed assets			7	1
Government grants released			67	67
Depreciation and amortisation	–	intangible fixed assets	156	156
	–	tangible fixed assets	1,267	1,254
Access charges payable to Network Rail			13,941	11,281
Operating lease rentals	–	plant and machinery	12,368	12,218
	–	land and buildings	6,407	6,160

4. Directors' remuneration

	52 weeks ended 4 January 2014 £000	52 weeks ended 5 January 2013 £000
Remuneration	511	510
Pension contributions	33	31
	544	541
Remuneration of the highest paid director	269	267

The company contributed £6,373 (52 weeks ended 5 January 2013 – £4,515) 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 (52 weeks ended 5 January 2013 – 1).

Notes to the financial statements

at 4 January 2014

5. Staff costs

	52 weeks ended 4 January 2014 £000	*52 weeks ended 5 January 2013 £000*
Wages and salaries	43,011	41,401
Social security costs	3,184	3,079
Pension costs – defined benefit scheme (note 21)	4,902	4,658
Pension costs – personal pension schemes	19	17
	51,116	49,155

The average monthly number of employees during the year was made up as follows:

	No.	*No.*
Operational	904	907
Engineering and maintenance	178	178
Administration and support	154	149
	1,236	1,234

6. Interest receivable and similar income

	52 weeks ended 4 January 2014 £000	*52 weeks ended 5 January 2013 £000*
Bank interest	125	179
Other interest	5	20
	130	199

7. Interest payable and similar charges

	52 weeks ended 4 January 2014 £000	*52 weeks ended 5 January 2013 £000*
Loan interest	90	90
Finance lease interest	67	71
	157	161

Notes to the financial statements

at 4 January 2014

8. Tax

(a) Tax on Profit on ordinary activities

The tax charge is made up as follows:

	52 weeks ended 4 January 2014 *£000*	*52 weeks ended 5 January 2013* *£000*
Current tax:		
UK corporation tax on the profit for the period	(3,858)	(3,803)
Adjustment in respect of prior periods	54	(14)
Total current tax (note 8(b))	(3,804)	(3,817)
Deferred tax:		
Origination and reversal of timing differences	130	54
Adjustment in respect of prior periods	54	(46)
Impact on deferred tax of change in tax rate	(37)	(9)
Pension cost charge in excess of pension relief	82	56
Tax on profit on ordinary activities	(3,575)	(3,762)

(b) Factors affecting current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.25% (52 weeks ended 5 January 2013 – 24.5%). The differences are explained below:

	52 weeks ended 4 January 2014 *£000*	*52 weeks ended 5 January 2013* *£000*
Profit on ordinary activities before tax	15,224	14,532
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (52 weeks ended 5 January 2013 – 24.5%)	(3,539)	(3,560)
Effects of:		
Expenses not deductible for tax purposes	(109)	(11)
Short term timing differences	(89)	(68)
Depreciation in excess of capital allowances	(121)	(164)
Adjustments in respect of prior periods	54	(14)
Current tax for the period (note 8(a))	(3,804)	(3,817)

Notes to the financial statements

at 4 January 2014

8. Tax (continued)

(c) Deferred tax

	£000
Deferred tax asset:	
At 6 January 2013	728
Deferred tax credit in profit and loss account	229
Credited to statement of total recognised gains and losses	175
At 4 January 2014	1,132

	52 weeks ended 4 January 2014	*52 weeks ended 5 January 2013*
	£000	*£000*
Included in debtors (note 14)	251	105
Included in defined benefit pension liability (note 21)	881	623
	1,132	728

Analysis of deferred tax balance

	52 weeks ended 4 January 2014	*52 weeks ended 5 January 2013*
	£000	*£000*
Capital allowances in excess of depreciation	132	(25)
Short term timing difference	119	130
Pension costs	881	623
Deferred tax asset	1,132	728

The underlying trade of the Company is profitable and profit forecasts support that it is 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.

(d) Factors that may affect future tax charges

In the 2013 Finance Bill the corporation tax rate was reduced to 21% from 1 April 2014 with a further reduction to 20% from 1 April 2015. As at the balance sheet date, the reduction in rate to 20% has been 'substantively enacted' and this has been incorporated into the closing deferred tax balances.

9. Dividends

	4 January 2014	*5 January 2013*
	£000	*£000*
Equity dividends paid of £6,982,500 per share (5 January 2013 – £6,518,500)	13,965	13,037

Notes to the financial statements

at 4 January 2014

10. Intangible fixed assets

Group	*Concession costs £000*	*Goodwill £000*	*Total £000*
Cost:			
At 6 January 2013 and 4 January 2014	726	3,190	3,916
Amortisation:			
At 6 January 2013	274	1,204	1,478
Charge for the year	29	127	156
At 4 January 2014	303	1,331	1,634
Net book value:			
At 4 January 2014	423	1,859	2,282
At 6 January 2013	452	1,986	2,438

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 6 January 2013	3,150	1,256	7,041	4,953	16,400
Additions	–	899	263	177	1,339
Disposals	–	–	(122)	(5)	(127)
Transfers	–	(1,752)	1,637	115	–
At 4 January 2014	3,150	403	8,819	5,240	17,612
Accumulated depreciation:					
At 6 January 2013	682	–	4,227	2,466	7,375
Charge for the year	104	–	700	463	1,267
Disposals	–	–	(119)	(1)	(120)
At 4 January 2014	786	–	4,808	2,928	8,522
Net book value:					
At 4 January 2014	2,364	403	4,011	2,312	9,090
At 6 January 2013	2,468	1,256	2,814	2,487	9,025

The cost of assets held by the company under finance leases at 4 January 2014 was £1,863,000 (5 January 2013 – £1,863,000). The accumulated depreciation provided for on those assets at 4 January 2014 was £1,319,000 (5 January 2013 – £1,124,000).

The cost of assets held by the company financed by a government grant at 4 January 2014 was £1,003,000 (5 January 2013 – £1,003,000). The accumulated depreciation provided for on those assets at 4 January 2014 was £197,000 (5 January 2013 – £130,000).

Notes to the financial statements

at 4 January 2014

12. Investments

Investments held as fixed assets

Shares in each of the following companies are held by Merseyrail Electrics 2002 Limited:

Company name	*Capital*	*Proportion held*	*Activities*
ATOC Limited	£0.04	5.00%	Contracting arm of ATOC
Rail Staff Travel Limited	£0.04	5.26%	Manages staff travel in the industry on behalf of ATOC
Rail Settlement Plan Limited	£0.04	5.26%	Operates the income allocation and settlement routines on behalf of ATOC
NRES Limited	£1.00	5.26%	Provides rail related information to the public
Train information Services Limited	£1.00	5.26%	Provides the national rail enquiry services
Nisa-Today's (Holdings) Limited	£25.00	0.01%	Buying group of independent retailers

Investments held as current assets

	4 January 2014	*5 January 2013*
	£000	*£000*
Short term deposits and investments	-	2,500

Short term investments comprise of fixed term deposits with maturity of not less than six months from the date of the original deposit.

13. Stocks

	4 January 2014	*5 January 2013*
	£000	*£000*
Raw materials and consumables	1,480	1,492
Work in progress	204	203
	1,684	1,695

Notes to the financial statements

at 4 January 2014

14. Debtors

	4 January 2014	*5 January 2013*
	£000	*£000*
Trade debtors	4,228	4,863
VAT	2,108	2,102
Other debtors	219	160
Prepayments and accrued income	2,022	2,064
Deferred tax asset (note 8(c))	251	105
	8,828	9,294

15. Creditors: amounts falling due within one year

	4 January 2014	*5 January 2013*
	£000	*£000*
Trade creditors	9,662	7,050
Amounts owed to parent undertaking	854	856
Corporation tax payable	2,091	1,948
Other creditors	13,502	9,794
Other taxation and social security costs	1,857	1,850
Accruals and deferred income	5,504	4,694
Obligations under finance leases	156	156
Bank loans	151	151
	33,777	26,499

16. Creditors: amounts falling due after more than one year

	4 January 2014	*5 January 2013*
	£000	*£000*
Obligations under finance leases	394	547
Bank loans	1,047	1,199
	1,441	1,746
Obligations under finance leases:		
Within one year	156	156
In two to five years	394	547
	550	703
Loans are repayable as follows:		
Within one year	151	151
In two to five years	606	606
Over five years	441	593
	1,198	1,350

Notes to the financial statements

at 4 January 2014

16. Creditors: amounts falling due after more than one year (continued)

Bank loans are secured on the assets to which they relate.

The bank loans bear interest at a fixed rate of 6.6945% and are repayable with a quarterly instalment of £60,324 since 11 January 2007.

17. Issued share capital

	4 January 2014		*5 January 2013*	
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £1 each	2	2	2	2

18. Movements on reserves

	Profit and loss account *£000*
At 6 January 2013	3,928
Profit for the financial period	11,649
Dividends paid (note 9)	(13,965)
Actuarial gains and losses (net of deferred tax)	(1,160)
At 4 January 2014	452

19. Reconciliation of shareholders' funds

	4 January 2014 *£000*	*5 January 2013* *£000*
Profit for the financial period	11,649	10,770
Dividends paid (note 9)	(13,965)	(13,037)
Other recognised gains and losses relating to the period (net of deferred tax)	(1,160)	1,157
Net decrease in shareholders' funds	(3,476)	(1,110)
Opening shareholders' funds	3,928	5,038
Closing shareholders' funds	452	3,928

20. Capital commitments

	4 January 2014 *£000*	*5 January 2013* *£000*
Contracted for but not provided in the financial statements	32	100

Notes to the financial statements

at 4 January 2014

21. Pensions

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 £3,732,000 in the period (5 January 2013–£3,555,000). The expected employer contributions for the next financial period are estimated at £4,000,000.

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 with CPI inflation.

A CPI inflation of 2.20% p.a. has been assumed at 5 January 2013. This has been set by making a deduction of 0.7% p.a. to the RPI inflation assumption.

Actuarial assumptions

The full actuarial valuation at 31 December 2010 was updated to 4 January 2014 and 5 January 2013 by a qualified actuary, using the following assumptions in relation to future experience:

	4 January 2014	*5 January 2013*	*7 January 2012*
Discount rate	4.70%	4.60%	4.70%
Rate of increase in salaries	3.90%	3.40%	3.50%
Rate of increase in deferred pensions	2.70%	2.20%	2.30%
Rate of increase in pensions in payment	2.70%	2.20%	2.30%
Inflation assumption	3.40%	2.90%	3.00%
Long term rate of return expected	6.20%	5.70%	6.15%

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

The main mortality assumptions used to determine benefit obligations were:

		4 January 2014	*4 January 2014*	*5 January 2013*	*5 January 2013*
		Table	Multiplier	Table	Multiplier
Male pensioners	Pension under £9,500 pa or pensionable pay under £35,000 pa	S1 normal males heavy	98%	S1 normal males heavy	98%
	Others	S1 normal males	99%	S1 normal males	99%

Male members are segmented into three postcode groups and an adjustment is made to the multipliers accordingly.

Allowance for future improvements in mortality has been made in line with the "core projection" model published by the CMI on 19 June 2009, assuming a long-term improvement rate for the period to 4 January 2014 of 1.25 % p.a. (5 January 2013 – 1.25% p.a.)

Notes to the financial statements

at 4 January 2014

21. Pensions (continued)

The net liability of the company is summarised as follows:

	4 January 2014 Value	*5 January 2013 Value £000*	*7 January 2012 Value £000*	*8 January 2011 Value £000*	*9 January 2010 Value £000*
Total market value of assets	119,589	106,208	95,596	92,916	81,766
Present value of scheme liabilities	(172,971)	(147,391)	(143,050)	(128,774)	(120,155)
Members' share of deficit	21,353	16,473	18,982	14,343	15,356
Franchise adjustment	27,625	21,999	24,371	14,156	16,487
Deficit in scheme	(4,404)	(2,711)	(4,101)	(7,359)	(6,546)
Related deferred tax asset	881	623	1,025	1,987	1,833
Net pension liability	(3,523)	(2,088)	(3,076)	(5,372)	(4,713)

Fair value of assets

The assets in the scheme were:

	4 January 2014 %	*4 January 2014 Value £000*	*5 January 2013 %*	*5 January 2013 Value £000*
Equities	61.2	73,174	53.9	57,286
Bonds/Gilts	13.5	16,180	14.7	15,539
Property	9.5	11,303	9.3	9,846
Cash and other	15.8	18,932	22.1	23,537
	100%	119,589	100%	106,208

	4 January 2014 £000	*5 January 2013 £000*
Amounts included within operating profit:		
Current service cost	4,680	4,440
Past service cost	-	10
Brass contributions	222	208
Total included within operating profit	4,902	4,658
Amounts included as other finance (income)/costs:		
Expected return on scheme assets	(3,720)	(3,600)
Interest cost on scheme liabilities	4,140	4,080
Interest on franchise adjustment	(1,010)	(1,150)
Net finance return	(590)	(670)

Notes to the financial statements

at 4 January 2014

21. Pensions (continued)

History of experience gains and losses

	4 January 2014	5 January 2013 £000	7 January 2012 £000	8 January 2011 £000	9 January 2010 £000
Difference between actual and expected return on scheme assets	2,173	841	(3,550)	1,823	2,974
Experience gains arising on scheme liabilities	-	995	(1,599)	1,067	(700)
Total pension cost recognised in the statement of total recognised gains and losses	(1,335)	1,615	3,874	(389)	(874)

The cumulative amount of actuarial gains and losses recognised since 2003 in the statement of total recognised gains and losses is a net gain of £3,196,000 (5 January 2013 – gain of £4,531,000).

	4 January 2014 £000	5 January 2013 £000
Analysis of the change in benefit obligation during the period:		
Benefit obligation at beginning of the period	147,391	143,050
Current service cost – Employer (including Brass)	4,902	4,648
Current service cost – Employee	3,120	2,960
Interest cost – Employer	4,140	4,080
Interest cost – Employee	2,760	2,720
Past service costs	-	10
Actuarial loss / (gain)	13,564	(7,161)
Benefits paid (including Brass)	(2,906)	(2,916)
Benefit obligation at end of period	172,971	147,391

Notes to the financial statements

at 4 January 2014

21. Pensions (continued)

	4 January 2014	*5 January 2013*
	£000	*£000*
Analysis of the change in plan assets during the period:		
Fair value of plan assets at beginning of the period	106,208	95,596
Expected return on plan assets – Employer	3,720	3,600
Expected return on plan assets – Employee	2,480	2,400
Actuarial gain	3,621	1,402
Employer contribution	3,732	3,555
Employer Brass matching contributions	222	208
Member contributions	2,512	2,363
Benefits paid (including Brass)	(2,906)	(2,916)
Fair value of plan assets at end of period	119,589	106,208

22. Other financial commitments

At 4 January 2014 the company had annual commitments under non-cancellable operating leases as set out below:

		4 January 2014		*5 January 2013*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	–	2,975	–	58
In two to five years	5,833	17	5,630	8,678
Over five years	420	12,018	430	11,887
	6,253	15,010	6,060	20,623

Notes to the financial statements

at 4 January 2014

23. Related party transactions

The group's related parties, as defined by FRS 8, the nature of the relationship and the effect of the transactions with them are summarised below:

Serco Group plc

	4 January 2014 *£000*	*5 January 2013* *£000*
Other trading transaction income including salary recharges	(69)	(31)
Executive salaries and expense recharges (including non directors)	237	131
Dividends paid and proposed	6,982	6,518
Other trading transaction costs	254	159

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 group owed Serco Group plc £30,509 (5 January 2013 – £37,115). At the period end, the company was owed £27,600 by Serco Group plc (5 January 2013 – £nil).

NV Nederlandse Spoorwegen

	4 January 2014 *£000*	*5 January 2013* *£000*
Other trading transaction income including salary recharges	(18)	(19)
Executive salaries and expense recharges (including non directors)	293	204
Dividends paid and proposed	6,982	6,518
Other trading transaction costs	221	647

All of the above expenses/(income) were payable to/(receivable from) 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 group owed NV Nederlandse Spoorwegen £6,955 (5 January 2013 – £17,750) At the period end, the company was owed £888 by NV Nederlandse Spoorwegen (5 January 2013 – £nil).

Northern Rail Ltd

	4 January 2014 *£000*	*5 January 2013* *£000*
Other trading transaction income including salary recharges	(700)	(715)

All of the above income was receivable from Northern Rail Ltd a related party by virtue of the fact that both Northern Rail Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At the period end, the company was owed £64,441 by Northern Rail Ltd (5 January 2013 – £nil).

Notes to the financial statements

at 4 January 2014

24. Ultimate parent undertaking and controlling party

The immediate parent undertaking 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 financial statements are prepared is Merseyrail Services Parent undertaking 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.