Company Registration No. 4619954

# NORTHERN RAIL LIMITED

## Report and Financial Statements

## 7 January 2012

# NORTHERN RAIL LIMITED

## REPORT AND FINANCIAL STATEMENTS
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# NORTHERN RAIL LIMITED

## REPORT AND FINANCIAL STATEMENTS

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

Ian Bevan
Dominic Booth
Jeroen Weimar
Jamie Burles
John Curley
Stephen Butcher
Julian Edwards

### SECRETARY

Ian Bevan

### REGISTERED OFFICE

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY

### BANKERS

National Westminster Bank
Staines Branch
67 High Street
Staines
Middlesex
TW18 4PU

Santander UK Plc
Bridle Road
Bootle
L30 4GB

### SOLICITORS

Denton Wilde Sapte
One Fleet Street
London
EC4M 7WS

### AUDITORS

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 7 January 2012

## PRINCIPAL ACTIVITIES

The principal activity of the company is the operation of passenger railway services in the North of England under a Franchise agreement awarded by the then Strategic Rail Authority Northern Rail Holdings Limited, the company's parent company is a joint venture company owned by Serco Group plc and Abellio Transport Holdings BV

Northern Rail Limited ("Northern") employs around 4,900 people, runs 2,500 train services every day, and has a portfolio of 463 stations The Northern operation represents 20% of the total of Britain's national rail network Operations range from single-track branch lines with very simple track, signalling and station infrastructure, to multi-trafficked high speed and densely used parts of the network

Northern's train services are operated by a fleet of 313 trains comprising 14 different types of diesel or 25kV AC electric multiple units These generally operate as two, three or four coach trains, with some peak hour services strengthened to be longer than this and some rural branch lines served by single carriage trains Northern maintains most of the rolling stock fleet at four large depots at Manchester (Newton Heath), Leeds (Neville Hill), Newcastle (Heaton) and Liverpool (Allerton)

Northern's operations serve three regions with a combined population of 14 2 million The North West, North East and Yorkshire and Humberside regions represent 21% of the UK's GDP Northern has a critical role to play in providing accessible transport that can be relied upon for commuting, leisure and business purposes Northern's services also provide access to and from remote rural and coastal communities, offering an important method of social inclusion for local residents They provide a sustainable means of travel for the many visitors to tourist locations

## BUSINESS REVIEW

Northern uses business planning processes based on the European Foundation for Quality Management (EFQM) to deliver our short and long-term business objectives This section sets out the significant progress and achievements of 2011, which was the seventh full trading year for Northern

## INITIATIVES

Northern continue to make progress in delivering key operational performance targets When Northern began the franchise in December 2004 the public performance measure (PPM) moving annual average, which represents the number of trains on time over the previous 12 months, was 83 79% Working with Network Rail, the owner and operator of the rail infrastructure, the moving annual average figure had risen to 91% by the end of 2009 In the 12 months to 7th January 2012 our PPM averaged 91 63%

During December 2011 Northern introduced an additional 50 carriages to the network Secured as part of the Department for Transport's rolling stock programme, Northern are now providing passengers with an extra two million seats on peak services every year to alleviate crowding in the five main urban centres Northern serves (Leeds, Liverpool, Manchester, Sheffield and Newcastle)

In partnership with Network Rail and Lancashire County Council we opened a new station at Buckshaw Parkway on the route between Preston and Manchester in October 2011 We have also improved facilities at stations in our existing estate Over £2 5million of station improvements have been delivered as part of the National Stations Improvement Programme, beneficiaries include Manchester Oxford Road, Blackburn and Ilkley Many smaller stations have also benefited from better facilities, customer information or enhanced security We are also making it easier for passengers to buy tickets before they travel We launched our online ticket sales facility in the summer and are installing ticket machines at more than 70 unstaffed stations

## RECOGNITION

Our activities and initiatives have been commended in a variety of national awards and several of our employees have also been recognised individually for the unique contribution that they make to the industry The following are of particular note

Northern achieved the significant accolade of being named Public Transport Operator of the Year (Rail) at the National Transport Awards in October 2011 This award is recognition of Northern's continued commitment to challenge the status quo of the 'steady-state' franchise

## DIRECTORS' REPORT continued

Northern was awarded 'Sustainable Business of the Year' for 2011 in the Environment and Energy Awards This recognised the progress we have made with our sustainability strategy and our aim to be the train operating company making the most positive contribution to environmental sustainability, to minimise energy consumption and reduce carbon emissions Our absolute carbon emissions for 2010 (latest available) stood at 383,436 tonnes $CO_2$ emissions, a figure which includes direct and indirect carbon (i e it is our whole carbon footprint) this represents a reduction of 5% since 2007

Northern's performance in occupational health and safety was recognised once again, taking the Transport Sector Award for the third year at the RoSPA (Royal Society for Prevention of Accidents) Awards

During 2011 Northern published it's first Social Responsibility report covering the period 2004-2010 This highlights the key issues we consider to be important to ensure we run a business that is environmentally sustainable, less damaging to the environment and beneficial to the community we serve

Northern became the first TOC to receive certification to the two standards BS EN16001 and ISO50001 for our Energy Management System Northern have improved data collation and management, through better software and improved metering and were successful in submitting our registration and submission for the Carbon Reduction Commitment Energy Reduction Scheme Maryport ecostation was opened in August 2011, which is a low carbon unstaffed station in Cumbria Northern have continued to work on reducing fuel consumption and seconded an Environmental Driving Manager to lead this initiative

### HEALTH AND SAFETY

Northern is committed to ensuring, as far as reasonably practicable, the health and safety of our customers, staff and members of the public We achieve this through a structured approach to health and safety built on three founding principles Leadership – embedding safety at the heart of our business through strong and visible leadership, Process – robust safety procedures and a safety management system that is independently certificated to BS OHSAS 18001, and People – building a strong positive safety culture through our people, focusing on safe behaviours and personal ownership of health and safety

Northern have a Health and Safety Strategy which is integrated into the Business Plan and defines the long term goals and commitment to continuous improvement This is supported by an annual Health and Safety Plan detailing the specific objectives in any one year to deliver improving safety performance and to reduce accidents and incidents

Northern regularly benchmark against industry best practice, and are proud that the approach to safety has won us the Transport and Distribution Sector Award in the annual RoSPA Health and Safety Awards, for the last three years running

### TRADING RESULTS

The Directors are satisfied with the performance of the company during the period Turnover was £570 6m, which was a decrease of 2% on the previous period (2011 £583 6m) due largely to a reduction in subsidy income following the changes resulting from control period 4 Operating profit of £35 2m represented a decrease of 7% on the previous period (2011 £37 9m) due to a one off settlement in the previous year

Cumulative passenger revenue has increased 9 3% year on year This has delivered an extra £16 9m of revenue Franchise receipts have reduced by £34 2m, due to the reduction in funding provided by the DfT following the change in Network Rail charges in Control Period 4

Following a review of revenue disclosures in the year, we believe it is more appropriate to disclose revenue share payments to the Department for Transport in operating costs rather than within revenue The impact of this is to increase revenue and operating costs by £15 1m (2011 £11 7m) There is no impact on operating profit as a result of this change

As noted above, the 2011 operating profit included a credit of £7 72m relating to the settlement of prior period Transport Police services, excluding this credit our operating profit has increased by 16 6% The 2012 profit includes a credit of £1 4m from a review undertaken on the company's depreciation and amortisation charges whereby management revised estimates in relation to the residual value of a number of assets and also the estimate on franchise end date

## DIRECTORS' REPORT continued

Capital investment in the year amounted to £3 1m This includes the installation of Ticket Vending Machines and CCTV at stations Station and staff accommodation refurbishments have also been undertaken improving the surroundings and services for both customers and employees There has also been the implementation of various Information Systems solutions, modifications to rolling stock, and also the maintenance of current systems

### OUTLOOK

Northern is continuing to achieve good levels of revenue growth, particularly around the urban hubs It will consider further use of ticket barriers and other revenue protection methods where there is clear evidence of fare evasion

Commercial opportunities will be carefully assessed and progressed where appropriate The cost base will continue to be carefully managed

### RISKS AND UNCERTAINTIES

In common with most train operators the main competitors to our business are the car, taxis and bus operators To mitigate the risks from these pressures, Northern works with stakeholders, shareholders and wider community groups to ensure that Northern services meet and exceed the requirements of our passengers Train service performance continued to improve during the year with the rail industry measure of performance – PPM at 91 63% for the year to 7th January 2012

The directors of Northern have reviewed the going concern assumption and are confident that the Business is well placed to trade successfully through the conditions brought about by the economic recession and beyond In reaching this conclusion, the Directors have performed an analysis of detailed trading and cash flow forecasts that extend beyond the 12 month period of consideration required by the standard The cash flow forecasts reflect both national and local economic growth factors published by recognised authorities and demonstrate the company's ability to continue to service its debts as they fall due This is despite the considerable downward sensitivities that have been applied, and hence the net current liabilities position at the balance sheet date is no cause for concern

### RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES

The company made a profit after taxation of £27,575,000 (2011 £28,258,000)

The directors recommended a final dividend of £9,800,000 (2011 £8,000,000), which was paid on 23 December 2011, together with interim dividends of £4,300,000 which were paid on 30 March 2011, £7,000,000 paid on 28 June 2011 and £6,500,000 paid on 29 September 2011

### DIRECTORS AND THEIR INTERESTS

The directors who served during the period and up to the date of approval of these financial statements were as follows

Ian Bevan
Dominic Booth
Lesley Batty (Resigned 18th May 2011)
Peter van Toor (Resigned 7th September 2011)
Jeroen Weimar
Jamie Burles
Stephen Butcher
Matthew Brown (Resigned 5th January 2012)
Chris Manning (Resigned 5th October 2011)
John Curley (Appointed 3rd November 2011)
Marie-Antoinette Wieman (Appointed 3rd November 2011 & Resigned 3rd March 2012)
Julian Edwards (Appointed 10th August 2011)

No directors had any beneficial interest in the issued share capital of the company or the immediate parent company during the year ended 7th January 2012

## DIRECTORS' REPORT continued

### CREDITOR PAYMENT POLICY

It is company policy to pay suppliers in accordance with agreed terms and conditions of purchase, provided that the supplier complies with all relevant terms and conditions The policy developed is to pay invoices at the end of the month following the month in which the goods are delivered or the services are performed The average time taken to pay purchase invoices by the company was 54 days (2011 57 days)

### 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

### CHARITABLE CONTRIBUTIONS

During the year the company made charitable donations of £79,075 (2011 £52,676), principally relating to local charities serving the communities in which the company operates

### FINANCIAL INSTRUMENTS

The company operates passenger railway services in the UK and, as such, is exposed to movements in fuel prices and related exchange rates To protect cash flows, the company enters into forward contracts, currently on a rolling monthly basis, to hedge a proportion of its exposures to fuel price and related foreign exchange movements

### AUDITORS

Each of the directors at the date of approval of this report confirms that

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

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

The appointment of Ernst and Young LLP, as auditors, was made during the year, and the re-appointment will be proposed at the forthcoming Annual General Meeting

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

Ian Bevan
Director
Date

13 APR 2012

## NORTHERN RAIL LIMITED

## 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 NORTHERN RAIL LIMITED

We have audited the financial statements of Northern Rail Limited for the year ended 7 January 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25 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 auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit 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 Director's Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 7 January 2012 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 matters prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

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

Ernst & Young LLP

**Gary Harding (Senior Statutory Auditor,**
For and on behalf of Ernst & Young LLP (Statutory Auditors)
Manchester, United Kingdom
Date 13 April 2012

## PROFIT AND LOSS ACCOUNT
### Period ended 7 January 2012

| | Note | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 Restated £'000 | 52 weeks ended 8 January 2011 Restated £'000 |
|---|---|---|---|---|---|
| **TURNOVER** | 2 | | 570,567 | | 583,619 |
| Operating expenditure | | | | | |
| - Restructuring costs | 3 | (819) | | (1,102) | |
| - Other operating income | 4 | - | | 7,720 | |
| - Other operating expenditure | | (534,580) | | (552,347) | |
| Total operating expenditure | 4 | | (535,399) | | (545,729) |
| **OPERATING PROFIT** | | | 35,168 | | 37,890 |
| Net finance income | 5 | | 3,361 | | 2,280 |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | | 38,529 | | 40,170 |
| Tax on profit on ordinary activities | 7 | | (10,954) | | (11,912) |
| **PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD** | 18 | | 27,575 | | 28,258 |

All amounts relate to continuing operations

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | Note | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January Re-stated 2011 £'000 |
|---|---|---|---|
| Profit for the financial period | | 27,575 | 28,258 |
| Actuarial gain/(loss) relating to pension scheme | 20 | 436 | (2,900) |
| UK deferred tax attributable to actuarial (gain)/loss | | (109) | 781 |
| **Total recognised gains and losses relating to the period** | | 27,902 | 26,139 |

## NORTHERN RAIL LIMITED

## Company Registration No. 4619954
## BALANCE SHEET
## 7 January 2012

| | Note | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 9 | 2,485 | 3,599 |
| Tangible assets | 10 | 11,845 | 12,550 |
| Investments | 11 | - | - |
| | | 14,330 | 16,149 |
| **CURRENT ASSETS** | | | |
| Stocks | 12 | 4,043 | 4,294 |
| Debtors | 13 | 45,591 | 30,168 |
| Cash at bank and in hand | | 51,233 | 60,448 |
| | | 100,867 | 94,910 |
| **CREDITORS: amounts falling due within one year** | 15 | (107,825) | (102,623) |
| **NET CURRENT LIABILITIES** | | (6,958) | (7,713) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 7,372 | 8,436 |
| **CREDITORS: amounts falling due after one year** | 16 | (770) | (1,277) |
| **NET ASSETS EXCLUDING PENSION LIABILITY** | | 6,602 | 7,159 |
| **PENSION LIABILITY** | 20 | (1,332) | (2,191) |
| **NET ASSETS INCLUDING PENSION LIABILITY** | | 5,270 | 4,968 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 17 | - | - |
| Profit and loss account | 18 | 5,270 | 4,968 |
| **TOTAL SHAREHOLDERS' FUNDS** | 19 | 5,270 | 4,968 |

These financial statements were approved by the Board of Directors

Signed on behalf of the Board of Directors

Ian Bevan
Director
Date

1 3 APR 2012

# NOTES TO THE FINANCIAL STATEMENTS
## 52 weeks ended 7 January 2012

### 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below

**Basis of preparation**

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards The directors of Northern have reviewed the going concern assumption and are confident that the Business is well placed to trade successfully through the conditions brought about by the recent economic recession and beyond In reaching this conclusion, the Directors have performed an analysis of detailed trading and cash flow forecasts that extend beyond the 12 month period of consideration required by the standard The cash flow forecasts reflect both national and local economic growth factors published by recognised authorities and demonstrate the company's ability to continue to service its debts as they fall due

**Turnover**

The company recognises turnover from three sources Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited, mainly in respect of passenger receipts Grant income relates to support from the Department for Transport in respect of passenger services and amounts received from Passenger Transport Executives Grant income is recognised in the profit and loss account in the period to which it relates Other income arises from the provision of ancillary services to external parties

Following a review of revenue disclosures in the year, we believe it is more appropriate to disclose revenue share payments with the Department for Transport in operating costs rather than within revenue (previously included within Grant income) The impact of this is to increase revenue and operating costs by £15 1m (2011 £11 7m) There is no impact on operating profit as a result of this change

**Intangible fixed assets**

Franchise goodwill arises on transition of a rail franchise, representing the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired Franchise goodwill was capitalised and is written off on a straight line basis over the life of the franchise of 6 ¾ years Franchise bid costs levied on the company were capitalised and amortised over the life of the franchise of 6 ¾ years The life was extended during 2010 to reflect the likely extension of the Franchise to September 2013 and amortisation has been adjusted accordingly

After consideration of all information, management believe their best estimate of the franchise end date is now March 2014 The impact of this has been to reduce amortisation by £0 2m in the current year

**Tangible fixed assets and depreciation**

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

Depreciation is provided to write off the cost less residual value of tangible fixed assets on a straight line basis over the remaining franchise period

During the year, management has revised estimates in relation to the residual value of a number of assets and also the estimate on franchise end date In respect of residual values, previously a policy of writing down to nil value at the end of the franchise had been adopted, however, given a number of recent asset acquisitions this policy was no longer deemed appropriate In addition, after consideration of all information, management believe that it is likely that a franchise extension to March 2014 is likely and therefore the asset lives have been extended by 6 months The impact of this has been to reduce depreciation by £1 2m in the current year

1. ACCOUNTING POLICIES (continued)

**Taxation**

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

Deferred taxation is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

**Leases**

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term

**Stocks**

Stocks are stated at the lower of cost and net realisable value Cost is purchase cost on an average cost basis Net realisable value is the value at which the stock can be realised in the normal course of business Provision is made for slow moving and obsolete items

**Pension costs**

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis The company's main obligation in respect of the Railway Pension Scheme is to pay contributions as agreed with the scheme actuary and trustees over the franchise term

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 On transition of a rail franchise an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax This intangible asset is subsequently amortised on a straight line basis over the franchise term

The current service cost is charged to operating profit The finance cost of liabilities and expected return on assets are shown as a net amount of other finance charges or credits on the face of the Profit and Loss account The service cost is included as part of staff costs in note 6 The actuarial gain/loss is charged through the Statement of Total Recognised Gains and Losses

The pension scheme assets are measured using fair values whilst the pension scheme liabilities are measured using a projected unit method and discounted using an appropriate discount rate

**Government grants**

Government grants relating to tangible fixed assets are treated as deferred income and released to profit and loss over the useful economic life of the assets concerned

**Cashflow statement**

The company is exempt under Financial Reporting Standard 1 from including a cashflow statement in its accounts as it is a wholly owned subsidiary of Northern Rail Holdings Limited, a company incorporated in the United Kingdom, which has included a consolidated cashflow statement in its financial statements

## 2. TURNOVER

The company has one pnncipal class of busmess bemg the operation of passenger railway services Followmg a review of revenue disclosures in the year, we beheve it is more appropnate to disclose revenue share payments with the Department for Transport in operating costs rather than within revenue (previously included within Grant income) The impact of this is to increase revenue and operating costs by £15 1m (2011 £11 7m) There is no impact on operating profit as a result of this change

Turnover is analysed as follows

| | 2012 £'000 | 2011 £'000 Restated |
|---|---|---|
| Passenger income | 199,000 | 182,109 |
| Grant | 317,432 | 351,572 |
| Other | 54,135 | 49,938 |
| | 570,567 | 583,619 |

## 3. RESTRUCTURING COSTS

Restructuring costs of £819,000 (2011 £1,102,000) were incurred by Northern Rail Limited

## 4. OPERATING PROFIT

| Operating profit is stated after charging/(crediting): | | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 Restated |
|---|---|---|---|
| Depreciation of tangible fixed assets | | 3,826 | 4,178 |
| Amortisation of intangible fixed assets | | 1,114 | 1,858 |
| Rental income receivable | | (1,062) | (1,064) |
| Access and related charges payable to Network Rail | | 92,945 | 125,258 |
| Operating lease rentals | - Rolling stock | 35,546 | 34,340 |
| | - Property leases | 19,757 | 18,660 |
| | - Other | 550 | 498 |

**The analysis of auditor's remuneration is as follows:**

| | | |
|---|---|---|
| Fees payable to the company's auditors for the audit of the company's annual accounts | | |
| - Previous Auditors | 10 | 107 |
| - Current Auditors | 76 | - |
| **Total audit fees** | 86 | 107 |
| Other services | 6 | - |
| **Total non-audit fees** | 6 | - |

## 4. OPERATING PROFIT (continued)

| Analysis of operating expenditure in the period: | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 Restated |
|---|---|---|
| Raw materials and consumables | 55,502 | 46,535 |
| Staff costs | | |
| - Wages and salaries | 163,608 | 151,119 |
| - Social security costs | 12,510 | 11,337 |
| - Other pension costs | 18,248 | 17,494 |
| Other external charges | 279,772 | 319,826 |
| Depreciation and other amounts written off tangible and intangible fixed assets | 4,940 | 6,036 |
| Restructuring costs | 819 | 1,102 |
| Other operating income – British Transport Police | - | (7,720) |
| | 535,399 | 545,729 |

Following a review of revenue disclosures in the year, we believe it is more appropriate to disclose revenue share payments with the Department for Transport in operating costs rather than within revenue (previously included within Grant income) The impact of this is to increase revenue and operating costs by £15 1m (2011 £11 7m) There is no impact on operating profit as a result of this change

A review has taken place in the year of the company's amortisation and depreciation policy The impact of this review has been to reduce amortisation by £0 2m and depreciation by £1 2m

## 5. NET FINANCE INCOME

| | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| Bond costs | (336) | (333) |
| Interest receivable and similar income | 307 | 193 |
| Net return on pension scheme (see note 20) | 3,390 | 2,420 |
| | 3,361 | 2,280 |

## 6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| **Directors' remuneration** | | |
| Total directors emoluments for the period (excluding pension) | 535 | 476 |
| Total directors pension contributions | 60 | 52 |
| | 595 | 528 |

| | Number | Number |
|---|---|---|
| **Number of directors who are members of a defined benefit scheme** | 3 | 3 |

| **Remuneration of the highest paid director** | £'000 | £'000 |
|---|---|---|
| Emoluments of the highest paid director (excluding pension) | 208 | 189 |
| Pension costs in respect of the highest paid director | 23 | 21 |

The amount of the accrued pension of the highest paid director at 7 January 2012 was £45,462 (2011 £40,359) The amount of the accrued lump sum of the highest paid director at 7 January 2012 was £33,477 (2011 £30,653)

Dominic Booth and Lesley Batty were remunerated through Abellio Transport Holdings Ltd

Peter Van Toor, Marie-Antoinette Wieman and Julian Edwards were remunerated through Abellio Transport Holdings BV

Jeroen Weimar, Matthew Brown, John Curley and Chris Manning were remunerated through Serco Limited It is not practicable to ascertain what proportion of their emoluments relates to the company

| | Number | Number |
|---|---|---|
| **Average number of persons employed (including directors)** | | |
| Operational | 3,330 | 3,377 |
| Engineering and maintenance | 813 | 778 |
| Administration and support | 714 | 619 |
| | 4,857 | 4,774 |

| | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January ·2011 £'000 |
|---|---|---|
| **Staff costs during the year (including directors)** | | |
| Wages and salaries | 163,608 | 151,119 |
| Social security costs | 12,510 | 11,337 |
| Pension costs | 18,248 | 17,494 |
| | 194,366 | 179,950 |

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

| The tax charge comprises | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| **Current tax** | | |
| United Kingdom corporation tax | 10,826 | 12,230 |
| Adjustment in respect of prior periods | 50 | (72) |
| **Total current tax** | 10,876 | 12,158 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (210) | (314) |
| Movement in pension provision | 214 | (7) |
| Effect of rate change | 81 | - |
| Adjustment in respect of prior periods | (7) | 75 |
| **Total deferred tax charge** | 78 | (246) |
| **Total tax charge on profit on ordinary activities** | 10,954 | 11,912 |

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

| | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | 38,529 | 40,170 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 26 5% (2011 28%) | 10,191 | 11,247 |
| Effects of | | |
| Expenses not deductible for tax purposes | 638 | 412 |
| Capital allowances in excess of depreciation | 206 | 564 |
| Movement in short term timing differences | (209) | 7 |
| Adjustment in respect of prior periods | 50 | (72) |
| **Current tax charge for the period** | 10,876 | 12,158 |

### 8. DIVIDENDS

| | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| Paid - £6 90m per ordinary share (2011 £5 56m per ordinary share) | 27,600 | 22,250 |

The directors recommended a final dividend of £9,800,000 (2011 £8,000,000), which was paid on 23 December 2011, together with interim dividends of £4,300,000 which were paid on 30 March 2011, £7,000,000 paid on 28 June 2011 and £6,500,000 paid on 29 September 2011

## 9. INTANGIBLE FIXED ASSETS

| Group | Franchise bid costs £'000 | Franchise goodwill £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 8 January 2011 and 7 January 2012 | 3,712 | 17,181 | 20,893 |
| **Amortisation** | | | |
| At 8 January 2011 | 3,109 | 14,185 | 17,294 |
| Charge for the period | 188 | 926 | 1,114 |
| At 7 January 2012 | 3,297 | 15,111 | 18,408 |
| **Net book value** | | | |
| At 7 January 2012 | 415 | 2,070 | 2,485 |
| At 8 January 2011 | 603 | 2,996 | 3,599 |

## 10. TANGIBLE FIXED ASSETS

| | Short leasehold buildings £'000 | Plant and machinery £'000 | Assets under construction £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 8 January 2011 | 1,012 | 24,696 | 103 | 25,811 |
| Additions | 33 | 2,802 | 286 | 3,121 |
| Transfer | - | 103 | (103) | - |
| At 7 January 2012 | 1,045 | 27,601 | 286 | 28,932 |
| **Accumulated depreciation** | | | | |
| At 8 January 2011 | 714 | 12,547 | - | 13,261 |
| Charge for the period | 95 | 3,731 | - | 3,826 |
| At 7 January 2012 | 809 | 16,278 | - | 17,087 |
| **Net book value** | | | | |
| At 7 January 2012 | 236 | 11,323 | 286 | 11,845 |
| At 8 January 2011 | 298 | 12,149 | 103 | 12,550 |

Assets under construction relate to various ongoing station developments and other capital improvement projects

## 11. INVESTMENTS HELD AS FIXED ASSETS

One share in each of the following companies is held by Northern Rail Limited and all were acquired for nil consideration

| Company name | Capital | Proportion Held | Activities |
|---|---|---|---|
| ATOC Limited | £0 04 | 5 00% | Contracting arm of ATOC |
| Rail Staff Travel Limited | £0 05 | 5 00% | Manages staff travel in the industry on behalf of ATOC |
| Rail Settlement Plan Limited | £0 05 | 5 00% | Operates the income allocation and settlement routines on behalf of ATOC |
| NRES Limited | £1 00 | 5 26% | Provides rail related information to the public |

## 12. STOCKS

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Raw materials and consumables | 4,043 | 4,294 |

There is no material difference between the balance sheet value of stocks and their replacement cost

## 13 DEBTORS

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Trade debtors | 26,876 | 15,836 |
| Other debtors | 9,377 | 3,637 |
| Deferred taxation (see note 14) | 476 | 296 |
| Prepayments and accrued income | 8,862 | 10,399 |
| | 45,591 | 30,168 |

## 14. DEFERRED TAXATION

The amounts of deferred tax asset recognised are as follows

| | £'000 |
|---|---|
| At 8 January 2011 including deferred tax on pension liability | 1,107 |
| Debit to the profit and loss account | (78) |
| Amount debited to the statement of recognised gains and losses | (109) |
| At 7 January 2012 including deferred tax and pensions liability | 920 |

The analysis of the deferred tax asset is as follows

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Included in debtors (note 13) | 476 | 296 |
| Included in pensions liability (note 20) | 444 | 811 |
| | 920 | 1,107 |

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Capital allowances in excess of depreciation | 465 | 296 |
| Provisions | 11 | - |
| Pensions costs | 444 | 811 |
| | 920 | 1,107 |

The underlying trade of the Group 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

In his budget of 23 March 2011, the Chancellor of the Exchequer announced certain tax changes which have an effect on the Company's future tax position The proposals included phased reductions in the corporation tax rate to 23% from 1 April 2014 As at the balance sheet date, only the reduction in the rate to 25% has been 'substantively enacted' and this has been incorporated into the closing deferred tax balances

The effect of the proposed reduction from 25% to 23%, which has not been 'substantively enacted', is not expected to be material

The rate change would also impact the amount of future cash tax payments to be made by Group The effect of the proposed changes to the UK tax system will be reflected in the financial statements of the Group in future years, as appropriate, once the proposals have been 'substantively enacted'

## 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Trade creditors | 37,956 | 26,876 |
| Corporation tax | 8,997 | 9,497 |
| Other creditors | 7,098 | 5,348 |
| Taxation and social security | 7,590 | 6,999 |
| Accruals and deferred income | 45,582 | 53,303 |
| Loans payable | 602 | 600 |
| | 107,825 | 102,623 |

## 16. CREDITORS. AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2012 £'000 | 2011 £'000 Restated |
|---|---|---|
| Deferred Grant Income | 212 | 291 |
| Other creditors | 156 | 156 |
| Loans payable | 402 | 830 |
| | 770 | 1,277 |

## 17. CALLED UP SHARE CAPITAL

| | 2012 £ | 2011 £ |
|---|---|---|
| **Authorised:** | | |
| 75 'A' ordinary shares of £1 each | 75 | 75 |
| 25 'B' ordinary shares of £1 each | 25 | 25 |
| **Called up, allotted and fully paid:** | | |
| 3 'A' ordinary shares of £1 each | 3 | 3 |
| 1 'B' ordinary shares of £1 each | 1 | 1 |
| | 4 | 4 |

'A' ordinary shares of £1 each and 'B' ordinary shares of £1 each carry equal voting rights and rank pari passu in all respects with the exception that directors appointed by 'A' shareholders shall appoint one of their number to be chairman of the Board of Directors In the case of equality of votes, the chairman shall have a second or casting vote

## 18. RESERVES

| | Profit and loss account £'000 |
|---|---|
| At 8 January 2011 | 4,968 |
| Retained profit for the financial period | 27,575 |
| Actuarial gain relating to Pension Scheme | 436 |
| UK deferred tax attributable to actuarial gain | (109) |
| Dividends | (27,600) |
| At 7 January 2012 | 5,270 |

### 19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Profit for the financial period | 27,575 | 28,258 |
| Other recognised gains and losses (net) | 327 | (2,119) |
| Dividends | (27,600) | (22,250) |
| Net increase in shareholders' funds | 302 | 3,889 |
| Opening shareholders' funds | 4,968 | 1,079 |
| Closing shareholders' funds | 5,270 | 4,968 |

### 20. PENSION LIABILITY

The Company operates two sections of the Railways Pension Scheme ("the RPS") This provides benefits for employees based on final pensionable pay The members are expected to meet 40% of the cost of the emerging benefits One section of the Railways Pension scheme relates to the Eastern division (ex Arriva Trains Northern Limited), and the other section relates to the Western division (ex North Western Trains Company Limited) The two sections are described separately below

The Company's main obligation in respect of the two sections of the RPS is to pay contributions as agreed with the scheme actuary and trustees over the franchise term

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 On transition of a rail franchise, an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax This intangible asset is subsequently amortised on a straight line basis over the franchise term

The most recent actuarial valuations of the scheme assets and the present value of the defined benefit obligation were carried out at 7th January 2012 by Mercer Human Resources The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit method

**Combined divisions**

The following assumptions have been used for both divisions

| | 7 January 2012 | 8 January 2011 | 9 January 2010 |
|---|---|---|---|
| Discount rate | 4 70% | 5 40% | 5 70% |
| Rate of increase in salaries | 3 50% | 3 90% | 4 00% |
| Rate of increase in deferred pensions | 2 30% | 2 90% | 3 50% |
| Rate of increase in pensions in payment | 2 30% | 2 90% | 3 50% |
| Inflation assumption | 3 00% | 3 40% | 3 50% |

The assets in the scheme and the expected rates of return have been calculated separately for each division

## 20. PENSION LIABILITY (continued)

The assets in the scheme and the expected rates of return were

**Eastern Division:**

| | 7 January 2012 £'000 | 8 January 2011 £'000 | 9 January 2010 £'000 |
|---|---|---|---|
| Total market value of assets | 245,787 | 238,477 | 211,558 |
| Present value of scheme liabilities | (378,763) | (333,675) | (319,065) |
| Deficit in the scheme | (132,976) | (95,198) | (107,507) |
| Members' share of deficit | 53,191 | 38,079 | 43,003 |
| Franchise adjustment | 79,033 | 55,870 | 64,504 |
| Company's share of deficit | (752) | (1,249) | - |
| Related deferred tax asset | 188 | 337 | - |
| Net pension liability | (564) | (912) | - |

**Western Division:**

| | 7 January 2012 £'000 | 8 January 2011 £'000 | 9 January 2010 £'000 |
|---|---|---|---|
| Total market value of assets | 211,696 | 206,161 | 183,064 |
| Present value of scheme liabilities | (290,795) | (261,179) | (251,592) |
| Deficit in the scheme | (79,099) | (55,018) | (68,528) |
| Members' share of deficit | 31,639 | 22,008 | 27,411 |
| Franchise adjustment | 46,436 | 31,257 | 41,041 |
| Company's share of deficit | (1,024) | (1,753) | (76) |
| Related deferred tax asset | 256 | 474 | 22 |
| Net pension liability | (768) | (1,279) | (54) |

## 20. PENSION LIABILITY (continued)

### AMOUNTS INCLUDED WITHIN OPERATING PROFIT

| Combined divisions | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| Current service cost | 18,248 | 17,494 |
| Total included within operating profit | 18,248 | 17,494 |

### AMOUNTS INCLUDED IN NET FINANCE INCOME

| Combined divisions | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| Expected return on scheme assets | 18,240 | 16,200 |
| Interest cost on scheme liabilities | (19,560) | (19,800) |
| Interest on franchise adjustment | 4,710 | 6,020 |
| Net finance return | 3,390 | 2,420 |

### ANALYSIS OF AMOUNT RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| Combined divisions | 52 weeks ended 7 January 2012 £'000 | 52 weeks ended 8 January 2011 £'000 |
|---|---|---|
| Actual return less expected return on assets | 29,802 | (14,554) |
| Experience gains and losses on liabilities | 4,180 | (4,601) |
| Gains and losses on change in assumptions | (786) | (2,383) |
| Experience gains and losses on franchise adjustment | (33,632) | 24,438 |
| Actuarial gain recognised | (436) | 2,900 |

**20. PENSION LIABILITY (continued)**

**HISTORY OF THE EXPERIENCE GAINS AND LOSSES RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

| Combined divisions | 2012 £'000 | 2011 £'000 | 2010 £'000 | 2009 £'000 | 2008 £'000 |
|---|---|---|---|---|---|
| **Difference between expected and actual returns on scheme assets** | 29,802 | (14,554) | (22,779) | 136,834 | (1,060) |
| Percentage of scheme assets | 6% | 3% | 6% | -41% | 0 2% |
| **Experience gains and losses on scheme liabilities** | 3,394 | (6,983) | 105,116 | (112,512) | 8,649 |
| Percentage of scheme liabilities | -1% | -1% | 18% | -33% | 2% |
| **Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment** | 33,196 | (21,538) | 82,337 | 24,322 | 7,589 |
| Percentage of scheme liabilities | 5% | 4% | 14% | 7% | 2% |
| **Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment** | (436) | 2,900 | (1,707) | 7,374 | 3,333 |

**20. ANALYSIS OF THE MOVEMENT IN THE SCHEME DEFICIT DURING THE PERIOD**

| Combined divisions | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Change in benefit obligation** | | |
| Benefit obligation at the beginning of the year | (594,854) | (570,657) |
| Current service cost | (29,740) | (28,574) |
| Past Service cost | (69) | - |
| Interest cost | (32,600) | (33,000) |
| Actuarial (losses)/gains | (25,523) | 21,377 |
| Benefits paid | 13,228 | 16,000 |
| Benefit obligation at the end of the year | (669,558) | (594,854) |
| **Change in plan assets** | | |
| Fair value of plan assets at the beginning of the year | 444,638 | 394,622 |
| Expected return on plan assets | 30,400 | 27,000 |
| Actuarial (losses)/gains | (29,802) | 14,554 |
| Contributions | 24,635 | 23,588 |
| Additional contributions - brass matching | 840 | 874 |
| Benefits paid | (13,228) | (16,000) |
| Fair value of plan assets at the end of the year | 457,483 | 444,638 |
| Funded status | (212,075) | (150,216) |
| Unrecognised net actuarial gains | 84,830 | 60,087 |
| Franchise adjustment | 125,469 | 87,127 |
| Net amount recognised | (1,776) | (3,002) |
| Related deferred tax asset | 444 | 811 |
| | (1,332) | (2,191) |

Cumulative gains since the adoption of FRS17 amount to £14,620,000 (2011 £14,184,000)

## 21. CONTINGENT LIABILITIES

Northern Rail Limited, as the franchisee, has procured two performance bonds in favour of the Strategic Rail Authority These bonds took effect from 18th October 2004 for the franchise term and for a period of 7 reporting periods after the end of the franchise

The initial expiry date of the franchise was 18th September 2011 However, during 2011 this was extended to 15th September 2013 The performance bond amount as at 7th January 2012 was £29,232,296 (2011 £29,232,296)

In addition Northern Rail Limited, as the franchisee, has procured two season ticket bonds in favour of the Department for Transport The bonds are dated 3rd December 2004 and took effect from the franchise commencement date of 12th December 2004 The total season ticket bond value as at 7th January 2012 was £3,906,000 (2011 £3,074,000)

## 22. OPERATING LEASE COMMITMENTS

At 7th January 2012 the company was committed to making the following payments in respect of operating leases

| | Property £'000 | Rolling stock £'000 | Other £'000 |
|---|---|---|---|
| Within one year | 20,675 | 37,099 | 540 |
| Within two to five years | 14,711 | 27,825 | 383 |
| | 35,386 | 64,924 | 923 |

All leases expire within two to five years

### 23. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions contained in FRS 8 "Related Party Transactions" paragraph 3c not to disclose transactions with fellow group companies

Transactions with related parties outside of the group, as defined by Financial Reporting Standard 8, the nature of the relationship and the effect of the transactions with them are summarised below

| | **52 weeks ended 7 January 2012 £'000** | **52 weeks ended 8 January 2011 £'000** |
|---|---|---|
| Expense recharges | 160 | 55 |
| Interest | 175 | 176 |

All of the above expenses were payable to 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's immediate parent company At 7th January 2012, amounts due to Serco Group plc amounted to £6,000 (2011 £2,000)

| | **52 weeks ended 7 January 2012 £'000** | **52 weeks ended 8 January 2011 £'000** |
|---|---|---|
| Expense recharge | (43) | 132 |
| Salary recharge | (202) | 56 |
| Interest | 161 | 176 |
| Commission Payable | 159 | - |

All of the above expenses 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's immediate parent company At 7th January 2012, amounts due to NV Nederlandse Spoorwegen amounted to £271,000 (2011 £33,000)

## 24. IMMEDIATE PARENT COMPANY AND ULTIMATE CONTROLLING PARTIES

The ultimate controlling parties of Northern Rail Limited are NV Nederlandse Spoorwegen and Serco Group plc These companies each own 50% of the share capital of Northern Rail Holdings Limited under a joint venture agreement 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 Dolphin House, Windmill Road, Sunbury-on-Thames, Middlesex, TW16 7HT The immediate parent company of the smallest group, which includes the company and for which group accounts are prepared is Northern Rail Holdings Limited, a company incorporated in the UK Copies of the financial statements of Northern Rail Holdings Limited are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom

## 25. FINANCIAL INSTRUMENTS NOT INCLUDED AT FAIR VALUE

The company operates passenger railway services in the UK and, as such, is exposed to movements in fuel prices and related exchange rates To protect cash flows, the company enters into commodity swap contracts, currently on a rolling monthly basis, to hedge a proportion of its exposures to fuel price and related foreign exchange movements The commodity swap contracts was in place during 2011 between Northern Rail Limited and Credit Agricole, an investment bank

The commodity swap contract is cash settled and runs from 1 October 2011 to 18 September 2013 The total volume for the contract is 74,175,460 litres, at a fixed rate of £0 4296 per litre for the term of the contract Credit Agricole pays a floating rate on both these contracts The floating rate is calculated as the daily 0 1% CIF NWE price in USD per tonne converted into litres and then into GBP at the daily spot rate On the 1st January 2012 this hedge was superseded and replaced by a new floating rate This revised rate was calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate The hedge runs from 1st January 2012 to 18th September 2013 The total volume for the contract is 64,631,205 litres

The fair value of the fuel hedge was calculated using a discounted cash flow methodology The forward rate for Gas Oil has been calculated on a monthly basis for the duration of the contract, and was then converted back into GBP using the forward rate

The fair value of the fuel hedge liability at 7th January 2012 was calculated to be £4,823,746 (2011 £5,408,120)