# Direct Rail Services Limited

Registered No. 3020822

**Direct Rail Services Limited**
***Safe Secure Reliable***

# Annual Report and Accounts

# 2010/2011

**DIRECTORS**
S Balmer
M Liefeith
J McLaughlin
N McNicholas (Managing Director)
A Moore (Chairman)

**SECRETARY**
H E Hodgson

**AUDITORS**
Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

**BANKERS**
National Westminster Bank Plc
P O Box 305
Spring Gardens
Manchester
M60 2DB

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

# Directors' report

The Directors present their report and the audited financial statements of the company for the year ended 31 March 2011

**Principal activities**

The Company's principal activities during the year continued to be the haulage of freight by rail within the UK The main areas of business continue to be -

- providing specialist transport services to the nuclear industry, in particular the rail element of the transport of spent nuclear fuel from power stations, the return of reprocessed nuclear fuel to its country of origin and the transport of waste to licensed sites,
- providing intermodal transport generally between domestic rail hubs in partnership with logistics providers who service the retail sectors within the UK and,
- providing support for the UK rail network by undertaking track conditioning and logistics support to engineering work and condition monitoring

**Business review**

The business results relating to the current year are described below

| Results | 2011(£000) | 2010 (£000) |
|---|---|---|
| Revenue | 43,311 | 45,034 |
| Operating Profit | 1,677 | 2,569 |
| Profit Before Tax | 1,890 | 2,250 |
| Net Return on Sales | 4 4% | 5 0% |

The level of business has broadly remained the same as the previous year although the business mix has changed such that the Company has expanded its customer base and has also expanded into new business sectors In particular the Company, despite the challenging market conditions, has exceeded the target profitability through the enormous efforts of all staff who have contributed in terms of reducing costs and increasing revenues Through this time the workforce has maintained industry-leading levels of operational performance, which resulted in DRS earning the prestigious title of the UK's best performing rail freight operator

Against the backdrop of the worst winter on record and at a time when DRS was at peak demand, service delivery continued to exceed target levels of performance whilst others ceased or curtailed operations The Company helped to ease that disruption through the provision of snowplough services This performance was fundamental in attracting business and keeping the UK rail network open Both of these factors had a positive impact on the Company's profitability when compared to the previous year

Attention is drawn to the financial impact of the section of the GPS Pension Scheme that the Company participates in The surplus in the defined benefit pension scheme has increased from £4,495,000 to £5,524,000 during the year as a result of a number of factors including the continuation by the Company of delivering high contributions into the scheme and the gradual recovery of the financial markets The Company does not have an unconditional right to recover the surplus referred to above and consequently the surplus is not recognised as an asset The Profit Before Tax figure of £1,890,000 is stated after charging £810,000 relating to the scheme The Directors take a long-term view of the pension scheme and intend to continue to invest in the provision of this important staff reward Further details of pension contributions can be found in the notes to the accounts

The Company is due to repay the loan from its parent organisation, which was inherited from its previous parent company, British Nuclear Fuels plc on 31 March 2013 The Directors intend to honour this commitment and if appropriate repay the loan on an earlier timescale A capital payment of £675,000 was made on 31st March 2011

# Directors' report (continued)

The Company maintains a strong balanced set of cross-business Key Performance Indicators (KPIs) These KPIs contain amongst others, Safety, Security, Environmental, Operational and Customer performance targets which are benchmarked to ensure well above average performance against industry norms Through structured management reviews combined with independent audit, the Directors have satisfied themselves that an excellent level of performance has been achieved throughout the year The Directors expect the Company's operations to expand in the foreseeable future

**Financial risk management**

In addition to the effects of the general economic downturn, the major financial risks faced by the Company continue to relate to pension costs and to the price of diesel fuel All business risks are managed through the maintenance of a comprehensive risk register, which is reviewed on a regular basis by senior management and the Board of Directors In particular, the company has managed its risk to pension costs by closing the defined benefit structure of the scheme to new entrants on 1 April 2008 and making available a defined contribution structure for all new employees from that date As regards increases in fuel costs, where practicable, the Company has indexation agreements with its customers

Other than foreign exchange forward contracts the Company does not use derivatives or other financial instruments in managing the risk associated with its business and the Company does not engage in speculative treasury arrangements All treasury activities are carried out under policies approved by the Board Further information on financial risk management is provided in note 22 to the financial statements

**Results and dividends**

The profit for the year, after taxation, amounted to £1,890,000 (2010 £2,250,000) The Directors do not recommend a final dividend

**Directors**

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

S Balmer
N A Hanson (Resigned 31 March 2011)
M Liefeith
J McLaughlin (Appointed 27 September 2010)
N McNicholas (Managing Director)
A Moore (Chairman)

**Employees**

The Company has an active Works Council that meets quarterly to consult and negotiate on many employee relations issues In addition to other local employee forums, the Works Council has operated successfully for several years and the Company formally recognises two unions to give every employee the option of union representation

Following the general economic downturn and changes to the business portfolio, the discussions surrounding the cost of living increase and terms and conditions were onerous Working relationships with employees and their unions, however, continued to develop this year in a constructive and forward-thinking manner The Company attaches importance to the involvement of its employees in the Company's development and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company through the use of newsletters and briefs in person to all staff at all locations by the Company directors The Company has a bonus arrangement in place to incentivise its employees in achieving a suite of performance targets

## Directors' report (continued)

The Company is committed to a policy of equal opportunities for all employees Great care is exercised in our human resource procedures to ensure that there is no discrimination and that training is given to meet individual needs Applications by people with disabilities are given full and fair consideration and, wherever practical, provision is made for their special needs The same criteria for training and promotion apply to people with disabilities as to any other employee If employees become disabled, every effort is made to ensure their continued employment **Charitable donations**

As part of the Company's comitment to the community in which it operates, contributions totalling £5,816 (2010 £4,932) were made during the year In particular, contributions totalling £3,022 (2010 £3,083) were made to Eden Valley Hospice (registered charity 1008796)

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union

Under Company Law the directors must not approve the financial statements unless they are satisfied that they
present fairly the financial position, financial performance and cash flows of
the Company for that period In preparing the financial statements the directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable
accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation They
are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

**Auditors and disclosure of information to auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

**Annual general meeting and auditors**

In accordance with the requirements of the Companies Act 2006 the Company is not required to hold an Annual General Meeting or to re-appoint the auditors on an annual basis

On behalf of the Board
N McNicholas, Managing Director
Date 24\11\11

# Auditors' report

**Independent auditors' report to the members of Direct Rail Services Limited**
We have audited the Annual Reports and Accounts of Direct Rail Services Limited for the year ended 31 March 2011 which comprise the Statement of comprehensive income, Statement of financial position, Statement of cash flows, Statement of changes in equity and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**
As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Ernst & Young LLP

JulianYates (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
Date 24 November 2011

# Statement of comprehensive income
**for the year ended 31 March 2011**

| | Notes | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Revenue** | 5 | **43,311** | 45,034 |
| Net operating costs and expenses | 6 | **(41,634)** | (42,465) |
| **Operating profit** | | **1,677** | 2,569 |
| Finance income | 9 | **467** | 1 |
| Finance costs | 10 | **(254)** | (320) |
| **Profit before tax** | | **1,890** | 2,250 |
| Tax | 11 | **-** | - |
| **Profit for the financial year** | | **1,890** | 2,250 |
| Other comprehensive income | | | |
| Loss on defined benefit pension scheme | 25 | **(810)** | (717) |
| **Total comprehensive income for the year** | | **1,080** | 1,533 |

All amounts derive from continuing operations

# Statement of financial position
## as at 31 March 2011

| | Notes | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **17,201** | 18,631 |
| Defined benefit pension scheme surplus | 25 | **-** | - |
| | | **17,201** | 18,631 |
| **Current assets** | | | |
| Inventories | 13 | **2,262** | 2,447 |
| Trade and other receivables | 16 | **6,274** | 5,746 |
| Cash and cash equivalents | 17 | **7,880** | 6,527 |
| | | **16,416** | 14,720 |
| Assets classified as held for sale | 14 | **-** | 554 |
| | | **16,416** | 15,274 |
| **Total assets** | | **33,617** | 33,905 |
| **Current liabilities** | | | |
| Obligations under finance leases | 18 | **(379)** | (379) |
| Trade and other payables | 19 | **(6,131)** | (6,692) |
| **Non-current assets plus net current assets** | | **27,107** | 26,834 |
| **Non-current liabilities** | | | |
| Other payables | 19 | **(118)** | - |
| Obligations under finance leases | 18 | **(648)** | (898) |
| Borrowings | 20 | **(7,000)** | (7,675) |
| | | **(7,766)** | (8,573) |
| **Net assets** | | **19,341** | 18,261 |
| **Equity** | | | |
| Share capital | 21 | **-** | - |
| Retained earnings | | **19,341** | 18,261 |
| **Total equity** | | **19,341** | 18,261 |

The financial statements on pages 7 to 28 were approved by the board of directors on 24 November 2011 and were signed on its behalf by -

Neil McNicholas

N McNicholas,
Managing Director

Company Registered Number 3020822

## Statement of cash flows
### as at 31 March 2011

| | Notes | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **1,890** | 2,250 |
| Net finance (costs)/ income | 9 | **(213)** | 319 |
| Depreciation and impairment of property, plant and equipment | 6 | **3,126** | 3,565 |
| Profit on disposal of property, plant and equipment | | **(196)** | (7) |
| Difference between pension contributions paid and amounts recognised in the statement of comprehensive income | | **(347)** | (739) |
| Decrease / (Increase) in inventories | | **185** | (421) |
| (Increase) / Decrease in trade and other receivables | | **(528)** | 913 |
| Decrease in trade and other payables | | **(443)** | (1,073) |
| Net cash generated from operating activities | | **3,474** | 4,807 |
| **Cash flows from investing activities** | | | |
| Interest received | | **4** | 1 |
| Purchase of property, plant and equipment | | **(1,696)** | (1,758) |
| Proceeds on disposal of property, plant and equipment | | **750** | 253 |
| Net cash flows used in investing activities | | **(942)** | (1,504) |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(254)** | (298) |
| Decrease in obligations under finance leases | | **(250)** | (214) |
| (Decrease) / Increase in borrowings | | **(675)** | 121 |
| Net cash flows used in financing activities | | **(1,179)** | (391) |
| **Net increase in cash and cash equivalents** | | **1,353** | 2,912 |
| Cash and cash equivalents at beginning of year | | **6,527** | 3,615 |
| **Cash and cash equivalents at end of year** | | **7,880** | 6,527 |

## Statement of changes in equity
### for the year ended 31 March 2011

| | Share capital £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|
| Balance at 31 March 2009 | - | 16,728 | 16,728 |
| Total comprehensive income for the year | - | 1,533 | 1,533 |
| Balance at 31 March 2010 | - | 18,261 | 18,261 |
| Total comprehensive income for the year | - | 1,080 | 1,080 |
| **Balance at 31 March 2011** | - | **19,341** | **19,341** |

Retained earnings are used to record the profit or loss arising from the statement of comprehensive income

# Notes to the financial statements
## for the year ended 31 March 2011

### 1 Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Direct Rail Services Limited for the year ended 31 March 2011 were authorised for issue by the Board of directors on 19 May 2011 and the statement of financial position was signed on the Board's behalf by N McNicholas

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 March 2011

### 2. General information

The Company is a limited company incorporated in the United Kingdom under the Companies Act 2006 The address of the registered office is given on page 2 The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 3 to 5

The immediate parent undertaking is the Nuclear Decommissioning Authority ('NDA') The consolidated financial statements of the NDA are available to the public and may be obtained from its headquarters at Herdus House, Westlakes Science & Technology Park, Moor Row, Cumbria, CA24 3HU In the Directors' opinion, the Company's ultimate controlling party is Her Majesty's Government

These financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated

### 3. Statement of accounting policies

***Basis of preparation***
These financial statements have been prepared under the historical cost convention

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 March 2011 and applied in accordance with the Companies Act 2006 The accounting policies which follow set out those policies which apply in preparing the financial statements for the year end 31 March 2011

***Changes in accounting policies***
The accounting policies adopted are consistent with those of previous years except as described below
The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 April 2010 unless otherwise stated

- Amendment to IFRS 2 Group Cash-settled Share-based Payment Arrangements
- IFRS 3 (revised) Business Combinations
- IAS 27 (amended) Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments Presentation – Classification of Rights Issues (Amendment)
- Amendment to IAS 39 Financial Instrument Recognition and Measurement – Eligible hedged items
- IFRIC 17 Distributions of Non-cash Assets to owners
- IFRIC 18 Transfers of Assets from Customers

The new or amended IFRS and IFRIC interpretations adopted in the period are not considered to have had a significant impact on the financial statements or performance of the Company

**3. Statement of accounting policies (continued)**

***Adoption of new and revised Standards (continued)***

At the date of authorisation of these financial statements, the following IFRS and IFRIC Interpretations, which have not been applied in these financial statements, were in issue but not effective (and in some cases have not yet been adopted by the EU)

| International | Accounting Standards (IAS/IFRS) | Effective Date |
|---|---|---|
| IAS 24 | Related Party Disclosure (Amendment) | 1 January 2011 |
| IFRS 9 | Financial Instruments Classification & Measurement<br>Comparative IFRS 7 disclosures | 1 January 2013 |

| International | Financial Reporting Interpretations Committee (IFRIC) | Effective Date |
|---|---|---|
| IFRIC 14 | Amendment Prepayment of a Minimum Funding Requirement | 1 January 2011 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company

***Revenue recognition***

Revenue is recognised to the extent that the Company obtains the right to considerations in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, or other sales taxes or duty

***Government grants***

Grants of a revenue nature are credited to revenue so as to match them with the expenditure to which they relate

***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease The corresponding liability to the lessor is included in the statement of financial position as a creditor Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly against income

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term

## 3 Statement of accounting policies (continued)

***Foreign currency***

Transactions in foreign currencies are recorded at the rate of exchange prevailing on the dates of the transactions At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates of exchange prevailing on the reporting date Exchange differences are recognised in profit or loss in the period in which they arise

***Retirement benefit costs***

The Company participates in the GPS Pension Scheme (formerly the BNFL Group Pension Scheme) and provides the scheme for the benefit of all of its employees The scheme is a defined benefit pension scheme that is funded by contributions partly from the employees and partly from the Company The Scheme requires contributions to be made to a separately administered fund

The contributions to the fund are based on independent actuarial valuations designed to secure the benefits as set out in the rules The assets are measured using market values whilst the liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise Past service costs are recognised immediately in operating costs to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested The interest cost and the expected return on assets are shown as a net amount of finance costs

Pension scheme assets are recognised to the extent that they are recoverable and pension scheme liabilities are recognised to the extent that they reflect a constructive or legal obligation

The Company also participates in the defined contribution structure of the GPS Pension Scheme The Scheme requires contributions to be made to a separately administered fund

***Long-Term Incentive Plan***

DRS executive directors participate in a Long-Term Incentive Plan (LTIP), which allows participants to receive a bonus, payment of which will take place over a period of two to four years from the end of the relevant accounting period, providing the participant remains in employment The LTIP is accounted for in accordance with IAS19 with the cost of the bonus being charged to the income statement over the vesting period

***Taxation***

The tax expense, if any, represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

## 3. Statement of accounting policies (continued)

***Taxation (continued)***

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis

***Property, plant and equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation and any recognised impairment loss Depreciation is charged so as to write off the cost of the assets, over their estimated useful lives, using the straight-line method, on the following bases

| | | |
|---|---|---|
| Leasehold land and buildings | - | 2% - 10% straight line |
| Plant & machinery | - | 7% - 10% straight line |
| Fixtures, fittings, tools and equipment | - | 20% - 33% straight line |

Assets in the course of construction are not depreciated until complete and brought into use by the Company Residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date

***Inventories***

Inventories are stated at the lower of cost and net realisable value Cost comprises direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition Net realisable value represents the estimated selling price less all estimated costs of completion and all costs to be incurred in marketing, selling and distribution Where necessary, provision is made for obsolete, slow moving and defective inventory

***Impairment of non-financial assets***

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

## 3. Statement of accounting policies (continued)

***Financial instruments***
Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument

Financial assets
Financial assets are classified as either financial assets 'at fair value through profit or loss' (FVTPL) or loans and receivables Financial assets are initially recognised at fair value plus transaction costs, except for those assets classified as at fair value through profit or loss, which are initially recognised at fair value (transaction costs are expensed in operating costs)

Financial assets at FVTPL
Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future or it is a derivative that is not designated and effective as a hedging instrument A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset

Loans and receivables
Trade and other receivables, and cash and cash equivalents, that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment Interest revenue is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial
The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest revenue over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying value of the financial asset

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account When a trade receivable is considered uncollectible, it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recognised in profit or loss

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

**3. Statement of accounting policies (continued)**

***Financial instruments (continued)***

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' (FVTPL) or other financial liabilities

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL A financial liability is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability

Other financial liabilities

Other financial liabilities, including trade and other payables and borrowings, are initially measured at fair value, net of transaction costs Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying value of the financial liability

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled or they expire

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value, with changes in fair value recognised in profit or loss

**4. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant Actual results may differ from these estimates The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

## 4. Critical accounting judgements and key sources of estimation uncertainty (continued)

***Critical judgements in applying the company's accounting policies***
There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that management has made in the process of applying the Company's accounting policies and that would have a significant effect on the amounts recognised in the financial statements

***Key sources of estimation uncertainty***
The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below

Estimated useful lives and impairment of property, plant and equipment
Property, plant and equipment is depreciated over the estimated useful lives of the underlying assets Estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date Impairment is measured by comparing the carrying value of the asset or cash-generating unit with its recoverable amount All assets are reviewed for evidence of impairment Given the age of the assets this calculation has a degree of uncertainty within it The carrying amount of property, plant and equipment at the reporting date was £17,201,000

Retirement benefit obligations
The nature of the process for valuing retirement benefit obligations for defined benefit schemes means that the calculations and the resulting surplus or deficit are estimates only The defined benefit pension scheme surplus at the reporting date was £5,524,000 The Company does not have an unconditional right to recover this surplus and consequently the surplus is not recognised as an asset

## 5. Revenue

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

Grant revenue is included within revenue and relates to grants received from the Department for Transport and the Scottish Government, which provide an incentive for the movement of traffic from road to rail The revenue is accrued on the basis of tonnes of commodity transported by rail

| | **2011**<br>**£000** | 2010<br>£000 |
|---|---|---|
| Sales revenue - all UK based | | |
| Railway services | **38,791** | 41,157 |
| Non-railway services | **3,517** | 3,109 |
| | **42,308** | 44,266 |
| Government grant revenue - all UK based | **1,003** | 768 |
| | **43,311** | 45,034 |

## 6. Net operating costs and expenses

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Net operating costs and expenses include | | |
| Employee costs (see note 7) | **16,084** | 16,260 |
| Augmentation payment (see note 25) | **585** | - |
| Depreciation of property, plant and equipment (see note 12) | **3,091** | 3,565 |
| Impairment of property, plant and equipment (see note12) | **35** | - |
| Profit on disposal of property, plant and equipment | **(196)** | (7) |
| Auditors' remuneration | | |
| - in respect of statutory audit of the Company | **18** | 18 |
| - in respect of the audit of grant claims | **4** | 8 |
| Operating lease rentals | | |
| - land and buildings | **202** | 186 |
| - plant and machinery | **5,502** | 6,056 |
| - motor vehicles | **248** | 240 |
| Cost of inventories recognised as an expense | **6,211** | 4,903 |
| Write down of inventories recognised as an expense | **73** | 56 |
| Other external and operating charges | **9,777** | 11,180 |
| | **41,634** | 42,465 |

## 7. Employee information (including Executive Directors)

| The average weekly number of employees during the year was as follows | 2011 Number | 2010 Number |
|---|---|---|
| Operations | **185** | 193 |
| Administration | **107** | 111 |
| | **292** | 304 |

| Employee costs during the year were as follows | 2011 £000 | 2010 £000 |
|---|---|---|
| Wages and salaries | **12,515** | 12,583 |
| Social security costs | **1,061** | 1,031 |
| Pension costs | **2,508** | 2,646 |
| | **16,084** | 16,260 |

Included within pension costs are £2,508,000 (2010 £2,472,000) in respect of the defined benefit pension scheme

## 8. Directors' emoluments

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Aggregate emoluments | **277** | 201 |
| Aggregate amounts receivable under long term incentive plans | **33** | 18 |
| Other emoluments (including pensions) | **145** | 121 |
| | **455** | 340 |

**8. Directors' emoluments (continued)**

Retirement benefits are accruing to 2 Directors (2010 2) under a defined benefit scheme The aggregate emoluments for the highest paid director are £199,298 (2010 £202,263) The accrued pension for the highest paid director is £147,764 (2010 £141,040)

With effect from 1 April 2009, DRS executive directors participate in a Long-Term Incentive Plan (LTIP), which allows participants to receive a bonus, payment of which will take place over a period of two to four years from the end of the relevant accounting period, providing the participant remains in employment The amount of LTIP that is deferred to future accounting periods is £23,408 (2010 £48,523)

**9. Finance income**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Net finance income on defined benefit pension scheme (note 25) | **463** | - |
| Bank interest | **4** | 1 |
| | **467** | 1 |

**10. Finance costs**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Net finance cost on defined benefit pension scheme (note 25) | - | 22 |
| Interest on loan due to immediate parent undertaking (note 20) | **123** | 121 |
| Interest on obligations under finance leases | **129** | 165 |
| Other interest charges | **2** | 12 |
| | **254** | 320 |

**11. Taxation**

| The explanation for the tax charge in the year is set out below | 2011 £000 | 2010 £000 |
|---|---|---|
| Profit before tax | **1,890** | 2,250 |
| Profit before tax at UK standard rate of 28% (2010 28%) | **529** | 630 |
| Effects of | | |
| Expenses not (allowable)/ deductible for tax purposes | **(140)** | (197) |
| Depreciation for period in excess of capital allowances | **850** | 983 |
| Other short term timing differences | **(51)** | (61) |
| Group relief received for nil payment | **(1,188)** | (1,355) |
| Actual tax for the year | - | - |

It is anticipated that any taxable profits in Direct Rail Services Limited in the foreseeable future will be offset using NDA group losses There is no current or deferred tax charge or credit for the year The Company has an unrecognised deferred tax asset in the amount of £4,692,000 (2010 £3,851,000)

## 12. Property, plant and equipment

| | Leasehold land and buildings £000 | Plant and machinery £000 | Fixtures and fittings £000 | Assets in the course of construction £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2009 | 4,052 | 30,860 | 1,268 | 3,601 | 39,781 |
| Additions | - | - | - | 1,758 | 1,758 |
| Transfers | 662 | 3,244 | 122 | (4,028) | - |
| Disposals | - | (1,069) | - | - | (1,069) |
| Reclassified as held for sale – see note 14 | - | (830) | - | - | (830) |
| At 1 April 2010 | **4,714** | **32,205** | **1,390** | **1,331** | **39,640** |
| Additions | - | - | - | 2,149 | 2,149 |
| Transfers | 51 | 1,880 | 51 | (1,982) | - |
| Disposal | - | (1,437) | (307) | - | (1,744) |
| **At 31 March 2011** | **4,765** | **32,648** | **1,134** | **1,498** | **40,045** |
| **Depreciation and impairment** | | | | | |
| At 1 April 2009 | **1,919** | **15,562** | **1,062** | - | **18,543** |
| Charge for the year | 257 | 3,140 | 168 | - | 3,565 |
| Disposals | - | (823) | - | - | (823) |
| Reclassified as held for sale – see note 14 | - | (276) | - | - | (276) |
| At 1 April 2010 | **2,176** | **17,603** | **1,230** | - | **21,009** |
| Charge for the year | 252 | 2,730 | 109 | - | 3,091 |
| Impairment loss | 35 | - | - | - | 35 |
| Disposals | - | (984) | (307) | - | (1,291) |
| **At 31 March 2011** | **2,463** | **19,349** | **1,032** | - | **22,844** |
| **Carrying amount** | | | | | |
| **At 31 March 2011** | **2,302** | **13,299** | **102** | **1,498** | **17,201** |
| At 31 March 2010 | 2,538 | 14,602 | 160 | 1,331 | 18,631 |
| At 1 April 2009 | 2,133 | 15,298 | 206 | 3,601 | 21,238 |

***Impairment***

The impairment provision of £35,000 made during the year ended 31 March 2011 relates to the remaining investment by the company in one of its operational sites The owner of the site has given notice to the company to vacate the site and the company considers that the remaining investment is irrecoverable

The Company's obligations under finance leases are secured by the lessor's title to the leased assets Assets held under finance leases and capitalised in plant & machinery have a carrying amount as follows

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Cost | **1,732** | 1,732 |
| Aggregate depreciation | **(705)** | (656) |
| Carrying amount | **1,027** | **1,076** |

## 13. Inventories

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Raw materials, spares & consumables | **2,262** | 2,447 |

## 14. Assets held for sale

| | £000 |
|---|---|
| At 1 April 2009 | - |
| Reclassified from property, plant and equipment – see note 12 | 554 |
| At 31 March 2010 | 554 |
| Sold in the year | (554) |
| **At 31 March 2011** | - |

Certain plant and machinery assets held by the Company have been reclassified as held for sale as the Company expected to sell these assets within 12 months of the reporting date The sale of these assets was subsequently completed on 23 April 2010 Disposal proceeds were £750,000

## 15. Financial instruments by category

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

| | 2011 £000 | 2010 £000 |
|---|---|---|
| **Financial assets – loans and receivables:** | | |
| Trade and other receivables excluding prepayments (a) | **5,236** | 5,103 |
| Cash and cash equivalents | **7,880** | 6,527 |
| | **13,116** | 11,630 |
| **Financial liabilities – other financial liabilities:** | | |
| Current obligations under finance leases | **379** | 379 |
| Current trade and other payables excluding payments received on account and other taxes and social security costs (b) | **5,206** | 5,613 |
| Non-current obligations under finance leases | **648** | 898 |
| Non-current borrowings | **7,000** | 7,675 |
| | **13,233** | 14,565 |

(a) Prepayments are excluded as this analysis is required only for financial instruments

(b) Payments received on account and other taxes and social security costs are excluded as this analysis is required only for financial instruments

Generally, financial assets and financial liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Company in undertaking its activities Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which profit and losses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 The fair value of financial instruments represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation The directors consider that the carrying amount of loans and receivables and other financial liabilities approximates their fair value

## 15. Financial instruments by category (continued)

The Company is exposed to foreign currency risk through its operations as certain transactions are denominated in foreign currencies, primarily the Euro The Company manages the exposure by implementing a policy of purchasing forward foreign currency A forward foreign exchange contract is held in relation to purchases of various components As at the reporting date, the fair value of derivative financial instruments was £nil (2010 £nil)

## 16. Trade and other receivables

| | 2011 £000 | 2010 £000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **4,418** | 3,627 |
| Provision for Bad Debts | **(7)** | (60) |
| | **4,411** | 3,567 |
| Accrued income | **648** | 1,525 |
| Other receivables | **177** | 11 |
| | **5,236** | 5,103 |
| Prepayments | **1,038** | 643 |
| | **6,274** | 5,746 |

Trade receivables are non-interest-bearing and are generally on 30-60 day terms As at 31 March 2011, the directors recognised a specific provision for bad debts of £7,000 (2010 £60,000 and 2009 £Nil) but considered the risk of non-payment of other receivables to be remote and accordingly no other trade receivables were impaired or provided for As at 31 March, the ageing of trade receivables is as follows

| | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Neither past due nor impaired | <30 days | 30-60 days | 60-90 days | 90-120 days | >120 days |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **2011** | **4,411** | **3,593** | **751** | **12** | **1** | **-** | **54** |
| 2010 | 3,567 | 2,594 | 762 | 51 | 77 | 10 | 73 |

## 17. Cash and cash equivalents

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Cash and cash equivalents | **7,880** | 6,527 |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less The Company has an undrawn borrowing facility of £1,000,000 (2010 £1,000,000)

## 18. Obligations under finance leases

**Minimum lease payments**

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Amounts payable under finance leases | | |
| Not later than one year | **379** | 379 |
| Later than one year and not later than five years | **822** | 1,201 |
| | **1,201** | 1,580 |
| Less future finance charges | **(174)** | (303) |
| Present value of lease obligations | **1,027** | 1,277 |
| Less amount due for settlement within twelve months (shown under current liabilities) | **(379)** | (379) |
| Amount due for settlement after 12 months (shown under non-current liabilities) | **648** | 898 |

For the year ended 31 March 2011, the average effective borrowing rate was 7 5% (2010 7 5%) Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments

## 19. Trade and other payables

| | 2011 £000 | 2010 £000 |
|---|---|---|
| **Current·** | | |
| Trade payables | **2,020** | 3,004 |
| General accruals | **2,178** | 1,961 |
| Other payables | **890** | 648 |
| | **5,088** | 5,613 |
| Payments received on account | **-** | 3 |
| Other taxes and social security costs | **1,043** | 1,076 |
| | **6,131** | 6,692 |
| **Non Current:** | | |
| Other payables | **118** | - |
| | **6,249** | 6,692 |

Trade payables and general accruals principally comprise amounts outstanding for trade purchases and ongoing costs The average credit period taken for trade purchases during the year is 33 days (2010 47 days) For most suppliers no interest is charged on the trade payables for the first 45 days from the date of invoice Thereafter interest is charged on the outstanding balances at various interest rates The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms

## 20. Borrowings

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Loan due to immediate parent undertaking repayable | | |
| Not later than one year | - | - |
| Later than one year and not later than five years | **7,000** | 7,675 |
| | **7,000** | 7,675 |
| Less amount due for repayment within twelve months (shown under current liabilities) | - | - |
| Amount due for repayment after 12 months (shown under non-current liabilities) | **7,000** | 7,675 |

The loan is interest bearing at a fixed percentage amount above the Bank of England base rate, and is repayable on 31 March 2013

## 21. Share capital

| | 2011 £ | 2010 £ |
|---|---|---|
| Authorised | | |
| 1,000 ordinary shares of £1 each | **1,000** | 1,000 |
| Allotted, called up and fully paid | | |
| 1 ordinary share of £1 | **1** | 1 |

## 22. Financial risk management

Capital risk
The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance The Company's overall strategy remains unchanged from the previous year The capital structure of the Company consists of debt, which includes borrowings disclosed in note 20, cash and cash equivalents and equity attributable to the immediate parent, comprising issued capital and reserves

Gearing ratio
The Company does not have a target gearing ratio (the proportion of net debt to equity) The Company and its immediate parent undertaking review the capital structure of the Company on a regular basis

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices The Company is primarily exposed to foreign currency risk and interest rate risk although the directors do not consider these risk exposures to be material

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are £Nil (2010 £Nil)

## 22. Financial risk management (continued)

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates The Company's exposure to the risk of changes in market interest rates relates primarily to borrowings disclosed in note 20

Borrowings relate entirely to a loan due to the Company's immediate parent undertaking If Bank of England base rate had been 0 5% higher/lower and all other variables were held constant, the Company's

- profit for the financial year ended 31 March 2011 would decrease by £38,000 (2010 £38,000), and
- total equity would decrease by £38,000 (2010 £38,000)

Liquidity risk
Liquidity risk (also referred to as funding risk) is the risk that an entity will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments The Company is primarily financed through its commercial revenue although it always has the option to apply for increased funding from its immediate parent

Credit risk
Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company The directors consider the risk of contractual default to be remote and accordingly the Company's exposure to credit risk is low

## 23. Capital expenditure authorised

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Contracted for but not provided for | **3,715** | 274 |

## 24. Operating lease commitments

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

| | Land & Buildings | | Other | |
|---|---|---|---|---|
| Operating leases which expire | **2011 £000** | 2010 £000 | **2011 £000** | 2010 £000 |
| Not later than one year | **146** | 95 | **4,928** | 5,169 |
| Later than one year and not later than five years | **118** | 177 | **4,379** | 4,322 |
| Later than five years | **34** | 33 | **-** | - |
| | **298** | 305 | **9,307** | 9,491 |

Operating lease payments represent rentals payable by the Company for certain parts of its office and other operating equipment The majority of leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years with an option to extend for a further 2 years at the then prevailing market rate

## 25. Retirement benefit schemes

The Company participates in the GPS Pension Scheme (formerly called the BNFL Group Pension Scheme) The GPS Pension Scheme is a funded defined benefit scheme that was formally sectionalised with effect from 31 March 2007 The scheme was available to all employees until 31 March 2008 The defined benefit structure of the scheme was closed to new entrants on 1 April 2008 and a defined contribution structure made available for all new employees from that date

## 25. Retirement benefit schemes (continued)

The last triennial actuarial valuation of the GPS Pension Scheme was 31 March 2007 The Company contributes to the scheme, in respect of defined benefit members, at a rate of 24 1% of pensionable salaries, as recommended by the scheme's independent actuaries On 1 April 2008 the NDA took over from British Nuclear Fuels plc as principal employer to the GPS Pension Scheme

A full actuarial valuation was carried out at 31 March 2007 using the projected unit method and updated approximately to 31 March 2009, 31 March 2010 and 31 March 2011 by a qualified independent actuary

Contributions are also made by some employees to a group defined contribution scheme amounting to £48,000 (2010 £26,000) The total Company pension costs for the year were £2,507,000 (2010 2,472,000) The balance of pension scheme contributions outstanding at the year end was £242,344 (2010 £236,677) Amounts recognised in the financial statements are set out in the tables below The total contributions to the defined benefit scheme in 2011/2012 are expected to be £2,449,000 for the company

The principal actuarial assumptions used at the reporting date were as follows

| | **2011 %** | **2010 %** |
|---|---|---|
| Discount rate | **5.5%** | **5.7%** |
| Rate of salary increase | **4.0%** | **4.1%** |
| Rate of price inflation | **3.5%** | **3.6%** |
| Rate of increase of pensions in payment | **3.5%** | **3.6%** |
| Rate of increase in deferred pensions | **3.5%** | **3 6%** |
| Life expectancy for a male pensioner aged 65 (years) | **21.6** | **21.5** |
| Life expectancy for a male non-pensioner currently aged 45 from age 65 (years) | **22.7** | **22.6** |

| Analysis of amounts charged to net operating costs and expenses | **2011 £000** | **2010 £000** |
|---|---|---|
| Current service cost | **2,153** | 1,695 |

| Analysis of amounts credited to finance income | **2011 £000** | 2010 £000 |
|---|---|---|
| Expected return on pension scheme assets | **1,797** | 1,162 |
| Interest on scheme liabilities | **(1,334)** | (1,184) |
| Net return credited to finance income/ (cost charged to finance costs) | **463** | (22) |

| Analysis of amounts recognised in other comprehensive income | **2011 £000** | 2010 £000 |
|---|---|---|
| Actual return less expected return on assets | **(19)** | 4,818 |
| Experience gains and (losses) arising on the scheme liabilities | **-** | - |
| Changes in assumptions underlying the present value of the scheme liabilities | **238** | (1,938) |
| Actuarial gain | **219** | 2,880 |
| Unrecognised surplus | **(1,029)** | (3,597) |
| Total loss recognised in other comprehensive income | **(810)** | (717) |

**25. Retirement benefit schemes (continued)**

The cumulative amount of actuarial losses recognised in the statement of comprehensive income since adoption of IFRS is £1,666,000 (2010 £856,000)

| Amounts recognised in the statement of financial position | **2011 £000** | 2010 £000 |
|---|---|---|
| Present value of defined benefit obligations | **(26,004)** | (21,817) |
| Fair value of scheme assets | **31,528** | 26,312 |
| Surplus / (deficit) in scheme | **5,524** | 4,495 |
| Unrecognised surplus | **(5,524)** | (4,495) |
| Asset / (liability) recognised in the statement of financial position | **-** | - |

Pension scheme assets are recognised to the extent that they are recoverable The Company does not have an unconditional right to recover the surplus referred to above and consequently the surplus is not recognised as an asset

| Movements in the present value of defined benefit obligations | **2011 £000** | 2010 £000 |
|---|---|---|
| At 1 April | **(21,817)** | (16,574) |
| Current service cost | **(2,153)** | (1,695) |
| Interest cost | **(1,334)** | (1,184) |
| Employee contributions | **(568)** | (505) |
| Settlement payment | **(585)** | - |
| Actuarial gain / (loss) | **238** | (1,938) |
| Benefits paid / (refunded) | **215** | 79 |
| At 31 March | **(26,004)** | (21,817) |

Movements in the fair value of the scheme assets

| | **2011 £000** | 2010 £000 |
|---|---|---|
| At 1 April | **26,312** | 17,472 |
| Employer contributions | **3,085** | 2,434 |
| Employee contributions | **568** | 505 |
| Actuarial gain / (loss) | **(19)** | 4,818 |
| Benefits (paid) / refunded | **(215)** | (79) |
| Expected return on plan assets | **1,797** | 1,162 |
| At 31 March | **31,528** | 26,312 |

The fair value of the assets for the Company's section of the scheme and the expected rates of return at the statement of financial position date are as follows

| | **Return** | **2011 £000** | Return | 2010 £000 |
|---|---|---|---|---|
| Equities | **8.2%** | **16,292** | 7 6% | 14,111 |
| Gilts | **4.2%** | **8,999** | 4 6% | 7,190 |
| Corporate Bonds | **5 5%** | **6,104** | 5 7% | 5,011 |
| Other | **2.0%** | **133** | - | - |
| Fair value of assets | 6 5% | 31,528 | 6 4% | 26,312 |

## 25. Retirement benefit schemes (continued)

The overall expected rate of return on asset assumptions have been derived by considering the expected long-term rate of return on each major asset category as at 31 March 2011 and weighting these rates of return broadly in line with the underlying asset allocation

The history of experience gains and losses is as follows

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Experience (losses) / gains arising on scheme assets | | | | | |
| Amount (£000) | **(19)** | 4,818 | (3,133) | (606) | - |
| Percentage of scheme assets | **0%** | 18% | (18%) | (4%) | - |
| Experience gains /(losses) arising on scheme liabilities | | | | | |
| Amount (£000) | **994** | - | - | (2) | - |
| Percentage of scheme assets | **3%** | 0% | 0% | 0% | - |
| Total amount losses recognised in statement of other comprehensive income | | | | | |
| Amount (£000) | **(810)** | (717) | (139) | - | - |
| Percentage of scheme assets | **(3%)** | (3%) | (1%) | 0% | - |

The history of experience gains and losses for the section prior to the year ended 31 March 2008 is not available as the scheme was not sectionalised until March 2007

## 26. Related party transactions

In the course of its normal business the Company enters into transactions with Government owned banks, Government Departments and other central Government bodies on an arms' length basis

Trading transactions
Transactions between the Company and the NDA and other NDA group companies were as follows

| | Sale of goods & services | | Purchase of goods& services | | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| NDA | - | - | **182** | 173 | - | - | **7,000** | 7,675 |
| International Nuclear Services Limited | **13,173** | 12,343 | - | - | **136** | 63 | - | - |
| NDA Properties Limited | - | - | **57** | 57 | - | - | **1** | 1 |

Key management compensation
Key management includes directors (executive and non-executive), and other senior executives The compensation paid or payable to key management for employee services is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures' Further information about the remuneration of individual directors is provided in note 8

| | **2011** | 2010 |
|---|---|---|
| | **£000** | £000 |
| Short term employee benefits | **1,000** | 997 |
| Post-employment benefits | **151** | 151 |
| Other long-term benefits | **145** | 57 |
| | **1,296** | 1,205 |

**26. Related party transactions** (continued)

With effect from 1 April 2009, DRS key management participate in a Long-Term Incentive Plan (LTIP), which allows participants to receive a bonus, payment of which will take place over a period of two to four years from the end of the relevant accounting period, providing the participant remains in employment The amount of LTIP that is deferred to future accounting periods is £89,521 (2010 £151,249)

**27. Capital Committments**

At 31st March 2011, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amount to £3,715,000 (2010 £274,000)

| MANCHESTER | | |
|---|---|---|
| R'CVD | 23 NOV 2011 | TIME AM/PM |
| ACKNOWLEDGED | | |