

London Overground Rail Operations Limited

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2012

MONDAY



L1E91Z4W

LD3

30/07/2012

#69

COMPANIES HOUSE

Registration number 5668786

London Overground Rail Operations Limited

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

CONTENTS	Page
Directors and advisers	2
Directors' report	3 – 7
Directors' Responsibilities Statement	8
Independent auditor's report to the members of London Overground Rail Operations Limited	9 – 10
Profit and loss account	11
Statement of total recognised gains and losses	11
Balance sheet	12
Cash flow statement	13
Notes to the financial statements	14 – 33

London Overground Rail Operations Limited

DIRECTORS AND ADVISERS

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

K L Leong
J P W Long
S Murphy
R Holland
Tai Chong Chew – appointed 01 September 2011
A Shooter – resigned 19 December 2011
L B Turk – resigned on 01 September 2011
A Furlong – appointed on 20 December 2011

Company secretary and registered office:

W G R Davies

Great Central House
Marylebone Station
Melcombe Place
London
NW1 6JJ

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Solicitors

SNR Denton UK LLP
One Fleet Place
London
EC4M 7WS

London Overground Rail Operations Limited

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the year ended 31 March 2012

PRINCIPAL ACTIVITY

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

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

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

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

London Overground will be a key service provider for the 2012 Olympic games serving the Olympic park (via Stratford) as well as several other Olympic locations.

The Company is determined to make its full contribution to a successful games and for the duration of the Olympic and Paralympic Games will be operating an enhanced train service.

Currently across the London Overground network the Company is the Station Facilities Operator (SFO) at 55 stations (increasing to 57 stations in December 2012) and its services call at a further 23 stations (increasing to 27 in December 2012) managed by other operators.

London Overground Rail Operations Limited

DIRECTORS' REPORT (continued)

BUSINESS REVIEW

KEY PERFORMANCE INDICATORS

The key financial highlights for the year are as follows

	Year ended 31 March 2012	Year ended 31 March 2011
	£'000	£'000
Profit and loss account:		
Turnover	110,481	126,253
Gross profit	20,386	12,571
Operating profit	7,540	821
Net interest receivable	652	813
Balance sheet:		
Fixed assets	4,869	6,419
Net current assets	1,463	4,044
Net funds	21,329	10,371
Net assets excluding post retirement obligations	6,332	8,463
Shareholders' funds	6,332	8,463
	%	%
Profitability		
Operating profit	6.8	0.7

Turnover decreased by £15.8 million to £110.5 million, this was largely due to 2011 numbers reflecting income for the enhancement project undertaken at the 44 stations managed by the Company. The project was one-off in nature.

Operating profit was higher when compared to the prior year, largely resulting from a significantly reduced loss this year as compared to 2011 in respect of the station enhancement project.

The Company used an industry standard Public Performance Measurement (PPM) during the period. The result for the year to 31 March 2012 of 96.54% (2011: 95.20%) met the target of 95.00% (2011: 93.20%) as contained in its Concession Agreement with Transport for London.

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

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The station enhancement project still poses a risk to the business. The Company has yet to reach final account with a number of its suppliers and has received several claims where it does not recognise entitlement. The accounts include an estimate for legitimate claims.

The summer Olympics is very important to the Company as many of the events are held in areas where London Overground operates. This will result in increased passenger loadings and additional pressure on the services provided. Plans are in place for additional passenger services and additional resources are being deployed to cater for the increased demand.

The extension of the East London line is planned to open in December 2012, this will result in the Company taking on a further two stations and increasing the number of stations served by six. The Company is recruiting and training additional drivers for the new services and plans are well advanced for a successful opening.

The objective of the Company in terms of financial instruments is to minimise risk. The Group's principal financial instruments comprise trade debtors, bank balances, trade creditors and shareholder loans. Due to the nature of the financial instruments used by the Company, there is no exposure to price risk.

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

PAYMENT TO CREDITORS

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

Trade creditors at period end amount to 27 days (2011: 25 days) of average supplies for the period.

DIVIDENDS

A dividend payment of £8.5m was made in the year ended 31st March 2012 (2011: £nil).

DIRECTORS' REPORT (continued)

EMPLOYEES

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

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

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

CHARITABLE CONTRIBUTIONS

During the year the Company made no charitable or political donations (2011: £nil).

GOING CONCERN

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

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

REAPPOINTMENT OF AUDITOR

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

London Overground Rail Operations Limited

DIRECTORS' REPORT (continued)

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

On behalf of the Board



Steve Murphy
Director

30 July 2012
Great Central House
Marylebone Station
Melcombe Place
London
NW1 6JJ

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

We have audited the financial statements of London Overground Rail Operations Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognized Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 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 matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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



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

30 July 2012

London Overground Rail Operations Limited

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2012**

	Notes	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Turnover	1b, 2	110,481	126,253
Cost of sales		<u>(90,095)</u>	<u>(113,682)</u>
Gross profit		20,386	12,571
Administrative expenses		<u>(12,846)</u>	<u>(11,750)</u>
Operating profit	3	7,540	821
Net interest receivable	6	<u>652</u>	<u>813</u>
Profit on ordinary activities before taxation		8,192	1,634
Tax charge on profit on ordinary activities	7	<u>(2,200)</u>	<u>(499)</u>
Profit on ordinary activities after taxation	18	<u>5,992</u>	<u>1,135</u>

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

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

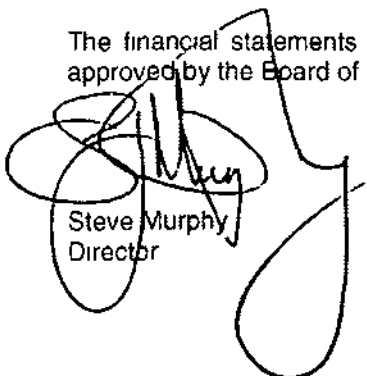
	Notes	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Profit for the financial year		5,992	1,135
Actuarial gain on post retirement obligation	22	422	1,132
Deferred tax relating to post retirement obligation		<u>(82)</u>	<u>(297)</u>
Total recognised gains for the year		<u>6,332</u>	<u>1,970</u>

London Overground Rail Operations Limited

BALANCE SHEET AS AT 31 MARCH 2012

	Notes	31 March 2012 £'000	31 March 2011 £'000
Fixed assets			
Intangible assets	8	1,455	2,013
Tangible assets	9	3,414	4,406
Current assets			
Stocks	10	1,035	1,009
Debtors	11	23,410	46,688
Cash at bank and in hand	12	<u>21,329</u>	<u>12,371</u>
		45,774	60,068
Creditors amounts falling due within one year	14	<u>(43,805)</u>	<u>(56,024)</u>
Net current assets		1,969	4,044
Total assets less current liabilities		6,838	10,463
Creditors , amounts falling due after more than one year	15	<u>(505)</u>	<u>(2,000)</u>
Net assets excluding post retirement obligations		6,332	8,463
Post retirement obligations	22	<u>-</u>	<u>-</u>
Net assets		<u>6,332</u>	<u>8,463</u>
Capital and reserves			
Called up share capital	17	-	-
Profit and loss account			
- Deficit relating to post retirement obligations	18	-	-
- Others		6,332	8,463
Total profit and loss account		<u>6,332</u>	<u>8,463</u>
Shareholders' funds		<u>6,332</u>	<u>8,463</u>

The financial statements of London Overground Rail Operations Limited, registered number 5668786, were approved by the Board of Directors and authorised for issue on 30 July 2012



Steve Murphy
Director

London Overground Rail Operations Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Net cash inflow from operating activities	13	21,306	994
Returns on investment and servicing of finance			
Interest received		86	56
Interest paid		(51)	(60)
Net cash inflow / (outflow) from returns on investment and servicing in finance		35	(4)
Taxation		(1,514)	(43)
Capital Expenditure			
Tangible assets		(405)	(705)
Net cash inflow before management of liquid resources and financing		19,422	242
Financing			
Decrease in senior debt falling due less than one year	21	(2,000)	-
Dividend paid		(8,464)	-
Net cash outflow from financing		(10,464)	-
Increase in cash in the year		8,958	242
Cash at bank and in hand			
Opening balance	13	12,371	12,129
Closing balance	13	21,329	12,371

Notes to the financial statements for the year ended 31 March 2012

1 ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom laws and accounting standards. A summary of the principal accounting policies adopted by the Directors, which have been applied consistently in the current and prior periods, is shown below.

b) Turnover

Turnover is the total amount receivable by the Company for services provided, excluding VAT and trade discounts.

Turnover reflects the following:

- I Concession payments payable to the Company from Transport for London in respect of the passenger services it operates. Concession payments are recognised in the period to which the payment relates and are enshrined in the Concession Agreement with Transport for London.
- II Enhancement income relates to station enhancement works undertaken by the Company on behalf of Transport for London. These contracts are fixed price in nature and income is recognised to match the costs as incurred. If it is anticipated that a contract, or a separate and identifiable component of the contract, will generate a loss, then the loss is reported immediately with provision for anticipated future costs.
- III 10% of passenger income is paid to the Company through the operation of a revenue share with Transport for London. Passenger income represents agreed amounts attributed to the London Overground services by the income allocation systems of the Railway Settlement Plan Limited, principally in respect of passenger receipts, based on detailed surveys of passenger flows. The income is recognised in the period in which the passenger travel occurs.
- IV Receipts for payments under the operational performance regime are contained within the Concession Agreement with Transport for London. Under this regime the Company is incentivised to minimise the level of delay. If the Company delivers less delay than the target then a payment is received from Transport for London. If the Company delivers more delay than the target then a payment is made by the Company to Transport for London. Such amounts are accounted for in the period to which the operational performance relates.
- V Station income is received from other train operating companies for using and stopping at stations operated by the Company. The income is agreed annually and invoiced and recognised in 13 equal periodic instalments throughout the year.
- VI Depot income is received from other train operating companies for works carried out at the Company's depot at Willesden and for stabling and fuelling units owned by other train operating companies at the depot. Income is invoiced and recognised when the work is complete.
- VII Other income is derived from car park income, commissions and other services and is recognised in the profit and loss account upon completion of the service.

Notes to the financial statements for the year ended 31 March 2012 (continued)

1 ACCOUNTING POLICIES (Continued)

c) Taxation

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

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

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

d) Tangible fixed assets

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

- i Short leasehold buildings, plant and equipment and infrastructure improvements – over the remaining lease term or remaining asset life in line with the Concession Agreement as appropriate, and
- ii Assets in the course of construction are not depreciated until commissioned. Once commissioned, assets are depreciated in line with the Concession Agreement. Assets which are listed in the Concession Agreement are depreciated over their economic useful life whilst other assets are depreciated over their economic useful life

e) Operating costs

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

f) Stocks

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

Notes to the financial statements for the year ended 31 March 2012 (continued)

1. ACCOUNTING POLICIES (continued)

g) Defined Benefit Schemes

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

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

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

h) Leased assets

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

i) Intangible fixed assets

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

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

j) Long-term contract balances

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

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

2 TURNOVER

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

Turnover for the year can be analysed as follows

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Concession payments	86,473	80,866
Enhancement income	-	25,234
Passenger income	8,590	6,876
Performance regime income	7,550	3,545
Station income received	4,152	3,990
Depot income	601	1,725
Other	3,115	4,017
	<u>110,481</u>	<u>126,253</u>

3 OPERATING PROFIT

Operating profit for the year is stated after charging

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Access charges payable to Network Rail	10,488	10,464
Operating lease rentals		
- rolling stock charge	2,091	2,102
- other plant and equipment	4,084	1,627
Depreciation and amortisation		
- tangible fixed assets, owned	1,397	1,471
- intangible assets	558	560
Auditor's remuneration		
- fees payable to the Company's auditor for the audit of the Company's annual accounts	49	44
- fees payable to the Company's auditor for non audit services	1	1
	<u>1</u>	<u>1</u>

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

4. DIRECTORS' REMUNERATION

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Emoluments	174	56
Company contribution to money purchase pension schemes	26	8
	<hr/> 200	<hr/> 64

	Year ended 31 March 2012 No.	Year ended 31 March 2011 No
The number of directors who:		
Are members of a defined pension scheme	1	1
	<hr/> 1	<hr/> 1

5 STAFF NUMBERS

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

	Year ended 31 March 2012 No	Year ended 31 March 2011 No
Customer Services	497	484
Operations	455	433
Fleet	109	108
General	96	104
	<hr/> 1,157	<hr/> 1,129

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

5 STAFF NUMBERS (Continued)

The aggregate payroll costs of these people were as follows

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Wages and salaries	44,561	41,185
Social security costs	3,665	3,206
Other pension costs	4,934	5,510
	<u>53,160</u>	<u>49,901</u>

6. NET INTEREST RECEIVABLE

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	86	56
Expected return on pension assets	617	817
	703	873
Interest payable and similar charges		
Interest payable on Subordinate Debt	(40)	(60)
Interest payable on Senior Debt	(10)	-
Other	(1)	-
	<u>(51)</u>	<u>(60)</u>
Net interest receivable	<u>652</u>	<u>813</u>

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

7 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

<u>Analysis of tax charge for the year</u>	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Current tax		
UK corporation tax	1,236	175
Group relief payable	1,085	567
Adjustments in respect of previous periods		
UK Corporation tax	(175)	(311)
Group relief payable	212	296
Total current tax	<u>2,358</u>	<u>727</u>
Deferred tax		
Origination and reversal of timing differences (note 16)	(16)	73
Deferred tax arising on defined benefit cost (note 22)	(82)	(297)
Adjustment in respect of prior periods	(102)	(37)
Adjustment due to Rate Change	42	33
Total deferred tax	<u>(158)</u>	<u>(228)</u>
Total tax on profit on ordinary activities	<u>2,200</u>	<u>499</u>

Factors affecting the tax charge for the current period

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

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Profit on ordinary activities before tax	<u>8,192</u>	<u>1,634</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011 28%)	2,130	457
Effects of		
Expenses not deductible for tax purposes	65	55
Capital allowances in excess of depreciation	16	10
Other timing differences	-	(83)
FRS 17 adjustment	270	546
FRS 17 adjustment – finance income	(160)	(229)
Rate Difference	-	(14)
Adjustments to tax charge in respect of previous periods	37	(15)
Tax charge for the year	<u>2,358</u>	<u>727</u>

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

8. INTANGIBLE FIXED ASSETS

	Cost of Concession £'000
Cost	
As at 1 April 2011 and 31 March 2012	3,919
Amortisation	
As at 1 April 2011	(1,906)
Charge for the year	(558)
At 31 March 2012	(2,464)
Net book value	
As at 31 March 2012	1,455
As at 31 March 2011	2,013

9. TANGIBLE FIXED ASSETS

	Short leasehold £'000	Plant and machinery £'000	Infrastructure improvements Under construction £'000	Total £'000
Cost				
At 1 April 2011	4,249	3,411	157	7,817
Additions	85	-	320	405
Transfers	89	66	(155)	-
	4,423	3,477	322	8,222
At 31 March 2012	4,423	3,477	322	8,222
Depreciation				
At 1 April 2011	(1,526)	(1,885)	-	(3,411)
Charge for the year	(851)	(546)	-	(1,397)
	(2,377)	(2,431)	-	(4,808)
At 31 March 2012	(2,377)	(2,431)	-	(4,808)
Net book value				
As at 31 March 2012	2,046	1,046	322	3,414
As at 31 March 2011	2,723	1,526	157	4,406

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

10. STOCKS

	31 March 2012 £'000	31 March 2011 £'000
Raw materials and consumables	1,283	1,222
Obsolete stock provision	<u>(248)</u>	<u>(213)</u>
	<u>1,035</u>	<u>1,009</u>

11. DEBTORS

	31 March 2012 £'000	31 March 2011 £'000
<u>Due within one year</u>		
Trade debtors	1,769	3,172
Rail settlement plan	9,194	7,516
Amounts owed by related parties	21 60	466
Other debtors	2,258	1,752
Prepayments and accrued income	<u>9,628</u>	<u>33,357</u>
	<u>22,909</u>	<u>46,263</u>
<u>Due after more than one year</u>		
Deferred tax	<u>501</u>	<u>425</u>
	<u>23,410</u>	<u>46,688</u>

12 CASH AT BANK AND IN HAND

Cash on deposit, at bank and in hand is £21.3 million (2011: £12.4 million). This includes a cash balance of £2.3 million (2011: £2.3 million) held to meet the requirements of the Concession Agreement set out by Transport for London and a cash balance of £1.4 million (2011: £1.4 million) held to meet the requirements of the Heavy Maintenance reserve set out by an agreement with Angel Train Ltd.

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

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

13 ANALYSIS OF NET FUNDS

	At March 2011	Cash flow	Non Cash item	At March 2012
	£'000	£'000	£'000	£'000
Cash in hand and at bank	12,371	8,958	-	21,329
Subordinated debt due in more than one year	<u>(2,000)</u>	<u>2,000</u>	-	<u>-</u>
Net funds	<u>10,371</u>	<u>10,958</u>	-	<u>21,329</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	31 March 2012	31 March 2011
	£'000	£'000
Increase in cash in the year	8,958	242
Decrease in subordinated debt due in more than one year	<u>2,000</u>	<u>-</u>
Increase in net funds	10,958	242
Opening net funds	<u>10,371</u>	<u>10,129</u>
Closing net funds	<u>21,329</u>	<u>10,371</u>

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 March 2012	Year ended 31 March 2011
	£'000	£'000
Operating profit	7,540	821
Depreciation and amortisation	1,955	2,031
(Increase) in stocks	(26)	(689)
Decrease in debtors	23,278	(21,793)
(Decrease) in creditors	<u>(12,219)</u>	<u>20,624</u>
Net cash inflow from operating activities	<u>20,528</u>	<u>994</u>

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

14. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2012 £'000	31 March 2011 £'000
Trade creditors	4,543	6,341
Rail settlement plan creditors	10,852	8,221
Amounts owed to related parties	21 1,318	3,244
Corporation tax payable	1,061	218
Other taxation and social security	2,899	2,306
Other creditors	6,076	3,377
Accruals and deferred income	15,780	31,211
Deferred season ticket income	1,276	1,106
	43,805	56,024

15 CREDITORS. AMOUNTS FALLING DUE AFTER ONE YEAR

	31 March 2012 £'000	31 March 2011 £'000
Amounts owed to Rail for London	-	-
Amounts owed to Shareholders	-	2,000
Accruals	506	-
	506	2,000
Analysis of debt:		
Debt can be analysed as falling due		
Between one and two years	-	-
Between two and five years	506	2,000
In five years or more	-	-
	506	2,000

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

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

16. DEFERRED TAX

	£'000
At 1 April 2011	424
Adjustment in respect of prior periods	102
Rate Change	(42)
Provided during the year	16
At 31 March 2012	500
Difference between accumulated depreciation, amortisation and capital allowances	329
Other timing differences	171
Deferred tax asset	500

17. CALLED UP SHARE CAPITAL

	31 March 2012 No	31 March 2011 No
Authorised.		
Ordinary shares of £1 each	2	2
	£	£
Allotted, called up and fully paid.		
2 Ordinary shares of £1 each	2	2

18. MOVEMENT IN RESERVES

	Pension Reserve £'000	Profit and Loss account £'000	Total £'000
At 31 March 2011	-	8,463	8,463
Profit for the year	-	5,992	5,992
Actuarial gain on post retirement obligations	422	-	422
Deferred tax relating to post retirement obligation	(82)	-	(82)
Dividend		(8,463)	(8,463)
Current pension service cost in excess of current contribution	(845)	845	-
Other finance income	617	(617)	-
Employers share of interest cost	(2,368)	2,368	-
Expected return on section assets	2,174	(2,174)	-
Deferred tax arising on defined benefit cost	82	(82)	-
At 31 March 2012	-	6,332	6,332

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

18 MOVEMENT IN RESERVES (cont)

Pension reserve is a distributable reserve which recognises future employer's liability for any funding shortfall to the defined benefit scheme See note 22

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Profit for the year	5,992	1,135
Actuarial gain on post retirement obligations	422	1,132
Deferred tax relating to post retirement obligation	(82)	(297)
Dividend	<u>(8,464)</u>	<u>-</u>
Net (decrease) / increase in shareholders' funds	(2,132)	1,970
Opening shareholders' funds	<u>8,464</u>	<u>6,493</u>
Closing shareholders' funds	<u>6,332</u>	<u>8,463</u>

20 FINANCIAL COMMITMENTS

The Company has the following annual commitments, amounting to £2.3 million due under operating leases, which expire as follows

	Rolling stock £'000
Operating leases which expire	
Within one year	-
Between one and five years	2,262
In five years or more	<u>-</u>
	<u>2,262</u>

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

The Company is committed to pay a fixed charge of £4.5 million (2011 £4.1 million) and £4 million for station and depot leases in the next financial year Thereafter Network Rail contracts will rise by RPI In addition, a variable charge is levied on the basis of train miles actually run

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

21. TRANSACTIONS WITH RELATED PARTIES

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

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
MTR Corporation Limited	-	(10)
DB Regio UK Limited	(381)	(578)
Chiltern Railway Company Limited	(409)	(339)
	<u>(790)</u>	<u>(927)</u>

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

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
MTR Corporation Limited	-	-
DB Regio UK Limited	525	188
Chiltern Railway Company Limited	486	712
Tyne and Wear Metro Limited	193	323
	<u>1,204</u>	<u>1,223</u>

All transactions are done on an arms length basis

Amounts owed to / (owed from) related parties

	31 March 2012 £'000	31 March 2011 £'000
MTR Corporation Limited	444	1,607
DB Regio UK Limited	853	1,607
Chiltern Railway Company Limited	(39)	(382)
Tyne and Wear Metro Limited	-	(66)
	<u>1,258</u>	<u>2,766</u>

The relationship of the Company to these companies is as follows

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

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

21 TRANSACTIONS WITH RELATED PARTIES (continued)

Shareholder loans

The Company has the following long-term subordinated debt from its shareholders

	31 March 2012 £'000	31 March 2011 £'000
MTR Corporation Limited	-	1,000
DB Regio UK Limited	-	1,000
	<u>-</u>	<u>2,000</u>

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

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
MTR Corporation Limited	20	30
DB Regio UK Limited	20	30
	<u>40</u>	<u>60</u>

22 POST RETIREMENT OBLIGATIONS

	31 March 2012 £'000	31 March 2011 £'000
Closing pension scheme liability	-	-
Deferred tax asset	-	-
	<u>-</u>	<u>-</u>
Net pension liability	<u>-</u>	<u>-</u>

Defined benefit pension schemes

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

Notes to the financial statements for the year ended 31 March 2012 (continued)

22. POST RETIREMENT OBLIGATIONS (continued)

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

Employer contributions for the year ending 31 March 2013 are either 13.92% or 14.64% depending upon the early retirement factors elected by the individual employee. These rates are equal to 60% of the long term joint contribution rate of 23.2% or 24.4% respectively. For the year ended 31 March 2012 employer contributions were 15.9% of Section pay, equal to 60% of the long-term joint contribution rate of 26.5% of Section Pay. These rates have been reviewed following the completion of an actuarial valuation as of 31 December 2010.

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

There were no outstanding or prepaid contributions at either the beginning or the end of the financial period.

The London Overground Section is open to new members.

Membership data

	31 March 2012 No	31 March 2011 No
<i>Active members</i>		
Number of active members	987	937
Annual payroll for active members (£'000)	32,472	28,599
Average age of active members	43 years	43 years
<i>Deferred members</i>		
Number of deferred members	138	100
Total payroll for deferred pensions (£'000)	247	169
Average age of deferred members	43 years	44 years
<i>Pensioner members (including dependants)</i>		
Number of pensioner members	35	22
Annual payroll for pension members (£'000)	205	105
Average age of pensioner members	60 years	62 years

Summary of assumptions

	31 March 2012 % pa	31 March 2011 % pa
Rate of increase in salaries	4.3	4.6
Rate of increase for pensions in payment	2.3	2.6
Discount rate	5.3	5.6
Inflation	3.3	3.6
Rates of increase for deferred pensioners	2.3	2.6

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

22 POST RETIREMENT OBLIGATIONS (continued)

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

Mortality rates

		31 March 2012 Years
Male currently age 65	Pension under £9,300 pa or pensionable pay under £35,000 pa Others	20.5 22.6
Male currently age 45	Pension under £9,300 pa or pensionable pay under £35,000 pa Others	22.8 24.9
Female currently age 65	Pension under £3,300 pa or pensionable pay under £35,000 pa Others	22.4 24.8
Female currently age 45	Pension under £3,300 pa or pensionable pay under £35,000 pa Others	24.9 27.1

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

22. POST RETIREMENT OBLIGATIONS (continued)

Pension scheme liability at end of year

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

	Expected rate of return %	31 March 2012 £'000	Expected rate of return %	31 March 2011 £'000
Equities	6.9	48,678	7.8	42,020
Government Bonds	3.1	2,451	4.4	2,186
Non-Government Bonds	4.6	-	5.5	-
Property	6.8	-	7.5	-
Other	2.5	707	3.8	373
		<hr/>		<hr/>
Fair value of plan assets	6.7	51,836	7.6	44,579
Present value of scheme liabilities		(68,895)		(62,942)
		<hr/>		<hr/>
Deficit in the scheme		(17,059)		(18,363)
Members' share of deficit		6,824		7,345
Deficit expected to be recovered after end of concession period		10,235		11,018
		<hr/>		<hr/>
Employer's share of gross pension liability		-		-
Related deferred tax asset		-		-
		<hr/>		<hr/>
Net pension liability		-		-
		<hr/>		<hr/>

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

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

22 POST RETIREMENT OBLIGATIONS (continued)

Reconciliation of pension scheme liability

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening Pension Scheme liability	-	-
Employer's share of pension cost	(4,240)	(4,616)
Employer contributions	3,818	3,484
Actuarial gain recognised in the STRGL	<u>422</u>	<u>1,132</u>
Closing pension scheme liability	<u>-</u>	<u>-</u>

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

Disclosed pension cost

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Employer's share of service cost	4,563	4,965
Employer's share of interest cost	2,368	2,258
Interest on concession adjustment	(617)	(817)
Employer's share of expected return on assets	<u>(2,174)</u>	<u>(1,790)</u>
Employer's share of pension cost	<u>4,240</u>	<u>4,616</u>

Changes in the present value of the defined benefit obligation

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening scheme liabilities	(62,942)	(59,477)
Service cost	(7,724)	(8,224)
Interest cost	(3,946)	(3,763)
Experience gains on the scheme liabilities	5,400	10,029
Benefits paid	<u>317</u>	<u>(1,507)</u>
Present value of scheme liabilities	<u>(68,895)</u>	<u>(62,942)</u>

London Overground Rail Operations Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

22. POST RETIREMENT OBLIGATIONS (continued)

Reconciliation of value of assets

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening value of scheme assets	44,579	34,710
Expected return on assets	3,623	2,983
(Loss) on assets	(2,360)	(308)
Employer contributions	3,818	3,484
Member contributions	2,493	2,203
Benefits paid	(317)	1,507
	<u>51,836</u>	<u>44,579</u>
Closing fair value of plan assets		

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

Historical information in respect of the gross value of the scheme

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
Present value of scheme liabilities	68,895	62,942	59,477
Fair value of scheme assets	51,836	44,579	34,710
Gross deficit in the scheme	(17,059)	(18,363)	(24,767)
Experience loss on scheme liabilities	(3,728)	2,416	1,174
Experience gain on scheme assets	1,416	185	(3,851)

23. CONTINGENT LIABILITIES

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

24. ULTIMATE PARENT COMPANY

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