London Overground Rail Operations Limited

ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2014

Registration number 5668786

STRATEGIC, DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

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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 (resigned 31 March 2014)
R Holland (resigned 15 April 2013)
Tai Chong Chew
A Furlong
R H McClean (appointed 09 May 2013)

Registration number:

5668786

Company secretary and registered office:

W G R Davies

Overground House
125 Finchley Road
London
NW3 6HY

Auditor:

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Solicitors:

SNR Denton UK LLP
One Fleet Place
London
EC4M 7WS

STRATEGIC REPORT

The Directors presents the Strategic report of London Overground Rail Operations Limited for the year ended 31 March 2014.

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 was initially seven years from the start of passenger operations on 11 November 2007; on 7 February 2013 the Company was awarded a two year extension to the Concession which now ends 12 November 2016.

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 (the GOB Line), and the East London Line operating between Highbury Islington/Dalston Junction and Crystal Palace/West Croydon.

In December 2013 London Overground opened an extension of the East London line connecting Surrey Quays to Clapham Junction. The opening of the extension created an orbital network connecting North London, East London and South London.

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

STRATEGIC REPORT (continued)

BUSINESS REVIEW

KEY PERFORMANCE INDICATORS

The key financial highlights for the year are as follows:

	Year ended 31 March 2014	Year ended 31 March 2013
	£'000	£'000
Profit and loss account:		
Turnover	**131,715**	126,829
Gross profit	**17,072**	19,298
Operating profit	**1,069**	6,441
Net interest receivable	**1,193**	644
Balance sheet:		
Fixed assets	**1,587**	3,213
Net current assets	**11,314**	6,449
Net funds	**33,551**	28,550
Net assets excluding post retirement obligations	**1,062**	3,224
Shareholders' funds	**1,062**	3,224
	%	%
Profitability:		
Operating profit	**0.8**	5.1

Turnover in the year ending 31 March 2014 increased by £4.9 million to £131.7 million. £1.0 million of this increase was due to strong passenger revenue growth in the year and Concession Payments from RFL increased by £2.0m primarily as a result of indexation and projects income.

Operating profit decreased by £5.4m compared to the prior year. The introduction of a Management Fee by both Joint Ventures owners resulting in additional cost of £3.6m and the FRS17 pension valuation resulted in a rise in pension service cost of £2.8m. This increase is due to an increase in headcount, salaries and an extension of the concession end date from November 2014 to November 2016.

The Company used an industry standard Public Performance Measurement (PPM) during the period. The result for the year to 31 March 2014 of 96.41% (2013: 96.64%) met the target of 96.32% (2013: 95.20%) 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.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

Passenger numbers on the London Overground continue to grow at a fast pace (the number of journeys have increased approximately 31% over the year). Implementing effective arrangements to manage higher passenger numbers on stations and trains, in order to maintain the high levels of customer satisfaction and service performance, is an important priority for the Company in the next year.

The Company fully supports RfL's plans to expand capacity through the lengthening of the 57 class 378 trains from four to five cars. This project, named London Overground Capacity Improvement Programme (LOCIP), will have a major impact on the Company's operations including significant changes to rolling stock, stations, depots and the infrastructure.

Works on the infrastructure and project are well under way and the first 5 car trains are planned to be in operation in 2014. To support the successful development of LOCIP, the Company will ensure that it is in a position to review and comment on proposals and to facilitate the various changes the project will involve, both in the interim, and in its final form.

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 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 23 days (2013: 23 days) of average supplies for the period.

FUTURE DEVELOPMENTS AND SUBSEQUENT EVENTS

On 28 May 2014 it was announced by Rail for London that LOROL will, as of 31 May 2015 until the end of the concession in November 2016, run services which are currently managed under the Greater Anglia franchise between Liverpool Street and Enfield Town, Cheshunt (via Seven Sisters) and Chingford as well as those on the Romford to Upminster line. The incorporation of the new routes into the London Overground will expand the operational network by approximately 30% and create a number of opportunities and challenges. The company will inherit a mixed fleet of trains (thirty class 315/317s), 24 stations and operational staff.

By order of the Board

Jeremy Long
Chairman

23 July 2014
125 Finchley Road
London
NW3 6HY

DIRECTOR'S REPORT

The Directors submit their annual report and the audited financial statements for the year ended 31 March 2014.

The following information has been disclosed in the strategic report:

- Principal activities
- Business review
- Principal risks and uncertainties including going concern
- Future developments

DIVIDENDS

The Directors approved a dividend payment of £4.6m in the year ended 31 March 2014 (2013: £8.8m).

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 charitable donations of £6,810 (2013: £1,066) and political donations of £nil (2013: £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.

DIRECTOR'S REPORT *(continued)*

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are 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.

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.

On behalf of the Board

Jeremy Long
Chairman

23 July 2014
125 Finchley Road
London
NW3 6HY

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.

Jeremy Long
Chairman

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 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 26. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and 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

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

23 July 2014

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2014

	Notes	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Turnover	1b; 2.	131,715	126,829
Cost of sales		(114,643)	(107,531)
Gross profit		17,072	19,298
Administrative expenses		(16,003)	(12,857)
Operating profit	3.	1,069	6,441
Net interest receivable	6.	1,193	644
Profit on ordinary activities before taxation		2,262	7,085
Tax charge on profit on ordinary activities	7.	(1,010)	(1,812)
Profit on ordinary activities after taxation	19.	1,252	5,273

A reconciliation of movement in shareholders' funds is given in note 20.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Profit for the financial year		1,252	5,273
Actuarial gain on post retirement obligation	23.	1,411	556
Deferred tax relating to post retirement obligation		(223)	(114)
Total recognised gains for the year		2,440	5,715

BALANCE SHEET AS AT 31 MARCH 2014

	Notes	31 March 2014 £'000	31 March 2013 £'000
Fixed assets			
Intangible assets	8.	337	896
Tangible assets	9.	1,250	2,317
Current assets			
Stocks	10.	929	1,451
Debtors	11.	30,135	30,369
Cash at bank and in hand	12.	33,551	28,550
		64,615	60,370
Creditors: amounts falling due within one year	14.	(53,301)	(53,921)
Net current assets		11,314	6,449
Total assets less current liabilities		12,901	9,662
Creditors: amounts falling due after more than one year	15.	-	-
Provisions for liabilities	16.	(11,839)	(6,438)
Net assets excluding post retirement obligations		1,062	3,224
Post retirement obligations	23.	-	-
Net assets		1,062	3,224
Capital and reserves			
Called up share capital	18.	-	-
Profit and loss account:			
- Deficit relating to post retirement obligations	19.	-	-
- Others		1,062	3,224
Total profit and loss account		1,062	3,224
Shareholders' funds		1,062	3,224

The financial statements of London Overground Rail Operations Limited, registered number 5668786, were approved by the Board of Directors and authorised for issue on 21 July 2014.

Jeremy long
Chairman

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2014

	Notes	**Year ended 31 March 2014 £'000**	Year ended 31 March 2013 £'000
Net cash inflow from operating activities	13.	**12,333**	18,822
Returns on investment and servicing of finance			
Interest received		**148**	102
Interest paid		**(3)**	-
Net cash inflow from returns on investment and servicing in finance		**145**	102
Taxation including payments for group relief		**(2,499)**	(2,551)
Capital Expenditure			
Tangible assets		**(376)**	(329)
Net cash inflow before management of liquid resources and financing		**9,603**	16,044
Financing			
Dividend paid		**(4,602)**	(8,823)
Net cash outflow from financing		**(4,602)**	(8,823)
Increase in cash in the year		**5,001**	7,221
Cash at bank and in hand			
Opening balance	13.	**28,550**	21,329
Closing balance	13.	**33,551**	28,550

Notes to the financial statements for the year ended 31 March 2014

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. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred season ticket income and included as part of Creditors due within one year.

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. 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.

III. 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.

IV. 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.

V. 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.

Notes to the financial statements for the year ended 31 March 2014 (continued)

1. ACCOUNTING POLICIES (continued)

VI. 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.

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 in line with the Concession Agreement 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 2014 (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 original seven year 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.

k) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the financial statements for the year ended 31 March 2014 (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 2014 £'000	Year ended 31 March 2013 £'000
Concession payments	**101,460**	98,507
Passenger income	**13,826**	12,881
Performance regime income	**7,623**	7,912
Station income received	**4,177**	4,093
Depot income	**355**	403
Other	**4,274**	3,033
	131,715	126,829

3. OPERATING PROFIT

Operating profit for the year is stated after charging:

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Access charges payable to Network Rail	**14,168**	12,486
Operating lease rentals		
- rolling stock charge	**2,100**	2,088
- other plant and equipment	**4,598**	4,291
Depreciation and amortisation		
- tangible fixed assets, owned	**1,442**	1,426
- intangible assets	**560**	559
Auditor's remuneration		
- fees payable to the Company's auditor for the audit of the Company's annual accounts	**40**	38
- fees payable to the Company's auditor for non-audit services	**3**	3

Notes to the financial statements for the year ended 31 March 2014 (continued)

4. DIRECTORS' REMUNERATION

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Emoluments	-	174
Company contribution to money purchase pension schemes	-	25
	-	199

The number of directors who:	**Year ended 31 March 2014 No.**	Year ended 31 March 2013 No.
Are members of a defined pension scheme	-	1
	-	1

5. STAFF COSTS

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

	Year ended 31 March 2014 No.	Year ended 31 March 2013 No.
Customer Services	**463**	500
Operations	**501**	498
Fleet	**119**	117
General	**95**	93
	1,178	1,208

Notes to the financial statements for the year ended 31 March 2014 (continued)

5. STAFF COSTS (continued)

The aggregate payroll costs of these people were as follows:

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Wages and salaries	**55,947**	52,577
Social security costs	**4,404**	4,272
Other pension costs	**7,357**	5,312
	67,708	62,161

6. NET INTEREST RECEIVABLE

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	**148**	102
Interest on pension adjustment	**1,048**	542
	1,196	644
Interest payable and similar charges		
Other	**(3)**	-
	(3)	-
Net interest receivable	**1,193**	644

Notes to the financial statements for the year ended 31 March 2014 (continued)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge for the year	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Current tax		
UK corporation tax	**752**	1,279
Group relief payable	**752**	1,278
Adjustments in respect of previous periods		
UK Corporation tax	**(12)**	(412)
Group relief payable	**31**	381
Total current tax	**1,523**	2,526
Deferred tax		
Origination and reversal of timing differences (note 17)	**(458)**	(656)
Deferred tax arising on defined benefit cost (note 23)	**(223)**	(114)
Adjustment in respect of prior periods	**(40)**	8
Adjustment due to Rate Change	**208**	48
Total deferred tax	**(513)**	(714)
Total tax on profit on ordinary activities	**1,010**	1,812

The Finance Act 2013 enacted reductions in the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015. Other than this change, there are no items which would materially affect the future tax charge.

Notes to the financial statements for the year ended 31 March 2014 (continued)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES continued

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 2014 £'000	Year ended 31 March 2013 £'000
Profit on ordinary activities before tax	**2,262**	7,085
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% (2013: 24%)	**520**	**1,700**
Effects of:		
Expenses not deductible for tax purposes	**201**	**68**
Capital allowances in excess of depreciation	**251**	**126**
Other timing differences	**206**	**530**
FRS 17 adjustment	**566**	**264**
FRS 17 adjustment – finance income	**(241)**	**(130)**
Adjustments to tax charge in respect of previous periods	**20**	**(32)**
Tax charge for the year	**1,523**	**2,526**

8. INTANGIBLE FIXED ASSETS

	Cost of Concession £'000
Cost	
As at 1 April 2014 and 31 March 2014	3,919
Amortisation	
As at 1 April 2013	3,023
Charge for the year	559
At 31 March 2014	3,582
Net book value	
As at 31 March 2014	**337**
As at 31 March 2013	896

Notes to the financial statements for the year ended 31 March 2014 (continued)

9. TANGIBLE FIXED ASSETS

	Short Leasehold £'000	Plant and machinery £'000	Infrastructure improvements under construction £'000	**Total £'000**
Cost				
At 1 April 2013	4,564	3,957	30	8,551
Additions	66	27	286	379
Transfers	-	-	-	
Disposals	-	-	(3)	(3)
At 31 March 2014	4,630	3,984	313	8,927
Depreciation				
At 1 April 2013	3,273	2,955	6	6,234
Charge for the year	812	637	-	1,449
Disposals	-	-	(6)	(6)
At 31 March 2014	4,085	3,592	-	7,677
Net book value				
As at 31 March 2014	**545**	**392**	**313**	**1,250**
As at 31 March 2013	1,291	1,002	24	2,317

Notes to the financial statements for the year ended 31 March 2014 (continued)

10. STOCKS

	31 March 2014 £'000	31 March 2013 £'000
Raw materials and consumables	**2,176**	2,062
Obsolete stock provision	**(1,247)**	(611)
	929	1,451

11. DEBTORS

		31 March 2014 £'000	31 March 2013 £'000
Due within one year:			
Trade debtors		**731**	921
Rail settlement plan		**13,475**	15,452
Amounts owed by related parties	22.	**64**	282
Other debtors		**4,032**	3,764
Prepayments and accrued income		**10,443**	8,849
		28,745	29,268
Due after more than one year:			
Deferred tax	17.	**1,390**	1,101
		30,135	30,369

12. CASH AT BANK AND IN HAND

Cash on deposit, at bank and in hand is £33.6 million (2013: £28.6 million). This includes a cash balance of £2.4 million (2013: £2.4 million) held to meet the requirements of the Concession Agreement set out by Transport for London and a cash balance of £1.4 million (2013: £1.4 million) held to meet the requirements of the Heavy Maintenance reserve set out by an agreement with Angel Trains 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.

13. ANALYSIS OF NET FUNDS

	At March 2013 £'000	Cash flow £'000	Non Cash item £'000	**At March 2014 £'000**
Cash in hand and at bank	28,550	5,001	-	**33,551**
Net funds	28,550	5,001	-	**33,551**

Notes to the financial statements for the year ended 31 March 2014 (continued)

13. ANALYSIS OF NET FUNDS (continued)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	31 March 2014 £'000	31 March 2013 £'000
Increase in cash in the year	5,001	7,221
Increase in net funds	5,001	7,221
Opening net funds	28,550	21,329
Closing net funds	33,551	28,550

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Operating profit	1,069	6,441
Depreciation and amortisation	2,002	1,985
Decrease / (increase) in stocks	522	(416)
Decrease / (increase) in debtors	524	(6,133)
Increase in creditors	2,815	11,695
Increase in provisions	5,401	5,250
Net cash inflow from operating activities	12,333	18,822

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

		31 March 2014 £'000	31 March 2013 £'000
Trade creditors		3,907	3,522
Rail settlement plan creditors		15,123	12,407
Amounts owed to related parties	22.	1,062	1,748
Corporation tax payable		293	809
Other taxation and social security		3,474	4,422
Other creditors		6,605	11,726
Accruals and deferred income		20,440	17,498
Deferred season ticket income		2,397	1,789
		53,301	53,921

Notes to the financial statements for the year ended 31 March 2014 (continued)

15. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

There are no creditors with amounts falling due after one year as at 31 March 2014.

16. PROVISIONS FOR LIABILITIES

	31 March 2014 £'000
Amount falling due within one year:	
At 1 April 2013	2,564
Charged to profit and loss account	1,388
At 31 March 2014	3,952
Amount falling due after one year:	
At 1 April 2013	3,874
Charged to profit and loss account	4,013
At 31 March 2014	7,887
Total provisions for liabilities	11,839

Other provisions falling due within one year relate to the Heavy maintenance reserve, these are payable when maintenance is carried out on the rolling stock. Other provisions falling due after one year relate to potential employees liabilities, maintenance and dilapidation cost of rolling stock, stations and head office and these will become payable at the end of the concession.

17. DEFERRED TAX

	£'000
At 1 April 2013	1,101
Adjustment in respect of prior periods	40
Rate Change	(209)
Provided during the year	458
At 31 March 2014	**1,390**
Difference between accumulated depreciation, amortisation and capital allowances	626
Other timing differences	764
Deferred tax asset	**1,390**

Notes to the financial statements for the year ended 31 March 2014 (continued)

18. CALLED UP SHARE CAPITAL

	31 March 2014 No.	31 March 2013 No.
Authorised		
Ordinary shares of £1 each	**2**	2
	£	£
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

19. MOVEMENT IN RESERVES

	Pension Reserve £'000	Profit and Loss account £'000	**Total £'000**
At 31 March 2013	-	3,224	3,224
Profit for the year	-	1,252	1,252
Actuarial gain on post retirement obligations	1,411	-	1,411
Deferred tax relating to post retirement obligation	(223)	-	(223)
Dividend	-	(4,602)	(4,602)
Current pension service cost in excess of current contribution	(1,980)	1,980	-
Other finance income	1,048	(1,048)	-
Employer's share of interest cost	(3,063)	3,063	-
Expected return on section assets	2,584	(2,584)	-
Deferred tax arising on defined benefit cost	223	(223)	-
At 31 March 2014	**-**	**1,062**	**1,062**

Pension reserve is a distributable reserve which recognises future employer's liability for any funding shortfall to the defined benefit scheme. See note 23.

Notes to the financial statements for the year ended 31 March 2014 (continued)

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Profit for the year	**1,252**	5,273
Actuarial gain on post retirement obligations	**1,411**	556
Deferred tax relating to post retirement obligation	**(223)**	(114)
Dividend	**(4,602)**	(8,823)
Net decrease in shareholders' funds	**(2,162)**	(3,108)
Opening shareholders' funds	**3,224**	6,332
Closing shareholders' funds	**1,062**	3,224

21. FINANCIAL COMMITMENTS

The Company has the following annual commitments, amounting to £2.1 million due under operating leases, which expire as follows:

	Rolling stock £'000
Operating leases which expire:	
Within one year	-
Between one and five years	2,099
In five years or more	-
	2,099

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 £7.7 million (2013: £6.3 million) and £4.1 million (2013: £4.1 million) which relates to 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.

Notes to the financial statements for the year ended 31 March 2014 (continued)

22. TRANSACTIONS WITH RELATED PARTIES

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

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
MTR Corporation Limited	**(1,800)**	-
DB Regio UK Limited	-	(65)
Chiltern Railway Company Limited	-	(468)
Arriva Trains Limited	**(1,800)**	
	(3,600)	(533)

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

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
MTR Corporation Limited	**217**	52
DB Regio UK Limited	-	31
Chiltern Railway Company Limited	**280**	202
Tyne and Wear Metro Limited	**174**	161
Arriva Trains Limited	**78**	-
	749	446

All transactions are done on an arm's length basis.

Amounts owed to / (owed from) related parties

	31 March 2014 £'000	31 March 2013 £'000
MTR Corporation Limited	**1,054**	1,748
DB Regio UK Limited	-	(226)
Chiltern Railway Company Limited	**(35)**	(29)
Tyne and Wear Metro Limited	**(13)**	(27)
Arriva Trains Limited	**(6)**	-
	1,000	1,466

Notes to the financial statements for the year ended 31 March 2014 (continued)

22. TRANSACTIONS WITH RELATED PARTIES (continued)

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. DB Tyne and Wear is 100% owned by DB Regio UK Limited.

Shareholder loans

As at 31 March 2014, the Company had long-term subordinated debt from MTR Corporation Limited of £nil (2013: £nil) and from DB Regio UK Limited of £nil (2013: £nil).

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

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
MTR Corporation Limited		-
DB Regio UK Limited	-	-
	-	-

Payments for group relief

The Company paid the following amounts for group relief during the period as shown:

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
MTR Corporation Limited	**1,243**	444
DB Regio UK Limited	-	989
	1,243	1,433

23. POST RETIREMENT OBLIGATIONS

	31 March 2014 £'000	31 March 2013 £'000
Closing pension scheme liability	-	-
Deferred tax asset	-	-
Net pension liability	-	-

Notes to the financial statements for the year ended 31 March 2014 (continued)

23. POST RETIREMENT OBLIGATIONS (continued)

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.

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 period ending 31 March 2014 are 14.64% of Section Pay for 'Category One Member' and 13.92% of Section Pay for 'Category Two Members'. These rates are expected to continue until 30 June 2015 when the employer contribution rate will revert to 60% of the long term joint contribution rate of 22.9% and 21.7% of Section Pay for Category One and Category Two members respectively. Future contribution rates are subject to review following the next actuarial valuation as at 31 December 2013.

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 2014 No.	31 March 2013 No.
Active members		
Number of active members	**1,101**	1,050
Annual payroll for active members (£'000)	**43,267**	38,266
Average age of active members	**43 years**	43 years
Deferred members		
Number of deferred members	**214**	160
Total payroll for deferred pensions (£'000)	**390**	270
Average age of deferred members	**43 years**	44 years
Pensioner members (including dependants)		
Number of pensioner members	**74**	50
Annual payroll for pension members (£'000)	**465**	300
Average age of pensioner members	**61 years**	61 years

Notes to the financial statements for the year ended 31 March 2014 (continued)

23. POST RETIREMENT OBLIGATIONS (continued)

Summary of assumptions

	31 March 2014 % pa	31 March 2013 % pa
Rate of increase in salaries	**3.9**	3.9
Rate of increase for pensions in payment	**2.4**	2.6
Discount rate	**4.4**	4.6
Inflation	**3.4**	3.4
Rates of increase for deferred pensioners	**2.4**	2.6

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 2014 Years
Male currently age 65	Pension under £9,300 pa or pensionable pay under £35,000 pa	**20.7**
	Others	**22.9**
Male currently age 45	Pension under £9,300 pa or pensionable pay under £35,000 pa	**23.1**
	Others	**25.1**
Female currently age 65	Pension under £3,300 pa or pensionable pay under £35,000 pa	**22.6**
	Others	**25.0**
Female currently age 45	Pension under £3,300 pa or pensionable pay under £35,000 pa	**25.1**
	Others	**27.4**

Notes to the financial statements for the year ended 31 March 2014 (continued)

23. 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 2014 £'000**	Expected rate of return %	31 March 2013 £'000
Equities	**6.7**	**67,945**	6.9	56,741
Government Bonds	**3.4**	**1,058**	2.8	1,540
Non-Government Bonds	**4.4**	**2,468**	4.1	1,540
Other	**2.9**	**0.589**	2.5	2,454
Fair value of plan assets	**6.5**	**72,060**	6.6	62,275
Present value of scheme liabilities		**(122,496)**		(100,249)
Deficit in the scheme		**(50,436)**		(37,974)
Members' share of deficit		**20,174**		15,190
Deficit expected to be recovered after end of concession period		**30,262**		22,784
Employer's share of gross pension liability		**-**		-
Related deferred tax asset		**-**		-
Net pension liability		**-**		-

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

Notes to the financial statements for the year ended 31 March 2014 (continued)

23. POST RETIREMENT OBLIGATIONS (continued)

Reconciliation of pension scheme liability

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Opening Pension Scheme liability	-	-
Employer's share of pension cost	(6,247)	(4,696)
Employer contributions	4,836	4,140
Actuarial gain recognised in the STRGL	1,411	556
Closing pension scheme liability	-	-

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 2014 £'000	Year ended 31 March 2013 £'000
Employer's share of service cost	6,816	4,989
Employer's share of interest cost	3,063	2,438
Interest on pension adjustment	(1,048)	(542)
Employer's share of expected return on assets	(2,584)	(2,189)
Employer's share of pension cost	6,247	4,696

Changes in the present value of the defined benefit obligation

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Opening scheme liabilities	(100,249)	(68,895)
Service cost	(11,315)	(8,271)
Interest cost	(5,105)	(4,063)
Experience (losses) on the scheme liabilities	(6,928)	(19,977)
Benefits paid	1,101	957
Present value of scheme liabilities	(122,496)	(100,249)

Notes to the financial statements for the year ended 31 March 2014 (continued)

23. POST RETIREMENT OBLIGATIONS (continued)

Reconciliation of value of assets

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Opening value of scheme assets	**62,275**	51,836
Expected return on assets	**4,307**	3,649
(Loss) / Gain on assets	**(1,325)**	895
Employer contributions	**4,836**	4,140
Member contributions	**3,068**	2,712
Benefits paid	**(1,101)**	(957)
Closing fair value of plan assets	**72,060**	62,275

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 2014 £'000	31 March 2013 £'000	31 March 2012 £'000
Present value of scheme liabilities	**122,496**	100,249	68,895
Fair value of scheme assets	**72,060**	62,275	51,836
Gross deficit in the scheme	**(50,436)**	(37,974)	(17,059)
Experience loss / (gain) on scheme liabilities	**3,170**	3,922	(3,728)
Experience loss / (gain) on scheme assets	**795**	(537)	1,416

24. POST BALANCE SHEET EVENT

On 28 May 2014 it was announced by Rail for London that LOROL will, as of 31 May 2015 until the end of the concession in November 2016, run services which are currently managed under the Greater Anglia franchise between Liverpool Street and Enfield Town, Cheshunt (via Seven Sisters) and Chingford as well as those on the Romford to Upminster line. The incorporation of the new routes into the London Overground will create a number of opportunities and challenges. The company will inherit a mixed fleet of thirty 315/317s, 24 stations and operational staff will transfer over.

25. CONTINGENT LIABILITIES

The Company has one performance bond with Bayerische Landesbank dated November 2013 for £12,012,399; this bond expires on 30 June 2017 and has been guaranteed by Deutsche Bahn AG, Germany and MTR Hong Kong.

26. 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.