4356933

Merseyrail Electrics 2002 Limited

Report and Financial Statements

7 January 2012

Directors

Andrew Heath	
Dominic Booth	
Jeremy Bowen	
Marie Wieman	(The Netherlands)
Julian Edwards	
John Curley	
Maarten Spaargaren	(The Netherlands)
Jeroen Weimar	(The Netherlands)

Secretary
Serco Corporate Services Limited

Auditors
Ernst & Young LLP
100 Barbirolli Square
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Bankers
National Westminster Bank
Liverpool

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Registered No 4356933

Directors' report

The directors present their report and financial statements for the 52 weeks ended 7 January 2012

Results and dividends

The profit for the period after taxation was £8,917,000 (2011 £7,613,000)

A dividend of £8,769,000 for the period has been paid (2011 £7,252,000)

Principal activities and review of the business

In 2003 Merseyrail were awarded a 25-year concession to provide rail services on behalf of Merseytravel, the Merseyside PTE This singled out Merseyrail amongst other Train Operating Companies (TOCs), where average length contracts are between 7-10 years For this reason, Merseyrail are now in the enviable position of being able to take a long-term perspective on the investment and development of rail passenger services We strive to exceed the expectations of not only the people of Merseyside, but also the wider public transport community This is in line with the philosophy of its two 50% shareholders Serco Group plc and Abellio

Merseyrail is an urban network of vital importance to the transport infrastructure of Liverpool and Merseyside and is one of the most intensively used networks in the UK, with over 800 train services daily (Monday to Saturday), with a reduced service of 350 train services on Sundays There are approximately 110,000 passenger journeys each weekday, with 37 million passenger journeys per annum Around 50% of passengers are daily users

The business operates 75 route miles in the Merseyside area bisected by the river Mersey The network has 67 stations, 66 of which are managed by Merseyrail, with terminal stations at Southport, Ormskirk, Kirkby and Hunts Cross to the North and New Brighton, West Kirby, Chester, and Ellesmere Port on the Wirral side of the river The network also includes 6 5 miles of underground track and 5 underground stations

The business operates with a fleet of 59 class 507/508 electric trains which underwent an extensive refurbishment in 2004 This included improved seating, advanced passenger information systems and on board CCTV security cameras

The directors are satisfied with the performance of the company during the period Turnover was £131,649,000 which was an increase of 4 3% on the previous period (2011 £126,264,000)

Throughout 2012 the Moving Annual Average (MAA) for punctuality was similar to performance in 2011 with our MAA again being 95 3% Performance was severely hampered at the start of the year due to the severe weather which was experienced nationally, although fleet performance was improved on the previous year For year ended 8th January 2011 we were the top performing Train Operating Company (TOC) in the country This year we were ranked 3rd, although we were the best Regional Operator

2011 saw the introduction of an increased daytime service between Liverpool and Chester, with the frequency doubling following an identification of potential passenger demand Initial results are indicating an increase in passenger numbers of around 20% on this route as a result

Merseyrail was awarded the 'North of England Excellence Award 2011' and also won the overall 'Business of the Year 2011'for being the highest scoring organisation amongst all the finalists

Merseyrail opened its 7th and 8th MtoGo stores at Maghull and Lime Street in August and November 2011 respectively, replacing traditional railway booking offices A ninth at Moorfields is due to open in February 2012

Directors' report

Principal activities and review of the business (continued)

Merseyrail have had success in promoting the increased use of cycling on our network in 2011 In addition to the £1million grant we secured from the DfT last year we gained a further £140k that enabled us to provide a further 3 secure cycle compounds at Waterloo, Maghull and Ormskirk An independent review into cycle rail integration reported that Merseyrail had seen the largest increase in cycle use on the UK rail network with a 123% increase in 2011 compared to previous year This has resulted in an increase of 14% of cycling's modal share of getting to and from the station to 22% in 2011

We continue to be the only UK train operating company to offer unrestricted, free, carriage of bicycles Our efforts in 2011 did not go unnoticed and at the National Cycling Awards ceremony held at the House of Commons in November we won the award for Customer Service Operator of the Year and were runner up (Highly commended) in the overall Operator of the Year award

We are serious about our role in the community and we have a very active programme of community engagement

We now have 29 official Station Adoption schemes and we are currently working on 6 more

Our BITC Business Class partnership with Archbishop Beck High School continued to go from strength to strength A group of Year 13 Business Studies students from Archbishop Beck High School have been visiting us once a fortnight for over 12 months as part of the Business in the Community Initiative Their visits have enabled them to apply the business theory they learn in school, seeing how it works in practice Paul Stirling, Assistant Head teacher at Archbishop Beck comments about the link that the school have with Merseyrail "This Business Class opportunity has given the pupils the opportunity to develop independent learning skills which help them in their future education and future careers It has really raised their aspirations, motivated them to achieve their full potential and opened their eyes up to future job prospects "

As part of our commitment to our community Merseyrail also support a local charity each year This year's charity was The Liverpool Heart and Chest Hospital appeal and we were delighted to be able to raise £75,000 through the involvement of staff and stakeholders in fundraising events throughout the year Over the last 6 years we have donated over £320,000 to our chosen charities

During the year Merseyrail retained its 100% Secure Station and Car Park accreditation from the Department of Transport (DfT) that we gained in 2010

Following on from achieving Investors in Excellence Standard in February 2011, Merseyrail has continued its path to excellence using the EFQM model and on 10th November 2011 received recognition from the North of England Excellence for the progress it has made Merseyrail was awarded by the North of England Excellence two awards Firstly the North of England Excellence Award 2011 and for being the highest scoring organisation amongst the 2011 awards finalists we were awarded the North of England Excellence 2011 Business of the Year

From a customer perspective we maintained a National Passenger Survey (NPS) overall satisfaction score of 93%, the highest of the franchised train operators (NPS survey autumn 2011)

In the period ended 7th January 2012 the company has invested £1,211,000 in capital improvements across the network to enhance our station and staff facilities

At the period end the cash balance stood at over £13,080,000 (2011 £11,299,000) with a further £2,000,000 (2011 £2,000,000) on short term investment The liquidity position has remained strong through the period

Directors' report

Outlook

Throughout the coming months Merseyrail will continue, in partnership with Merseytravel, and others, to make improvements to the network and service, to enable the challenges of the coming year to be met Capital expenditure is expected to be in line with previous periods Third party funding will be used for further refurbishments at Liverpool Central Station which is our busiest station for passenger numbers

Principal risks and uncertainties

The 25 year concession means that the business has certainty and is therefore able to take a long-term view on investment There are no rail competitors running over the same routes In common with most train operators the main competitor to the business is the car, taxis and bus operators To mitigate the risks from these pressures, Merseyrail are working with local and national bodies to ensure that services are provided that meet or exceed the requirements of our stakeholders The long term nature of the contract means that Merseyrail are able to invest in improvements to the network that are beneficial and attractive to stakeholders

The economic climate in the region has impacted on Merseyrail There is a higher degree of uncertainty around patronage, and the leadership team within Merseyrail are focused on close monitoring of all relevant KPIs to ensure any required remedial action in response to the emerging conditions is taken

Going concern

The nature of the Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator and having reviewed the budgets and forecasts for a 12 month period from the date of signing the financial statements, the directors are confident that the business will continue to be cash generative The directors believe this will be achieved without the need for third party funding in the foreseeable future, despite the current economic uncertainty Thorough cash management processes are followed Accordingly, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for its foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Directors

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

Andrew Heath	
Kevin Thomas	(resigned 31 December 2011)
Dominic Booth	
Peter Morton	(resigned 7 October 2011)
Bartholomeus Schmeink	(resigned 1 December 2011)
Matt Brown	(resigned 5 January 2012)
Lesley Batty	(resigned 19 May 2011)
Marie Wieman	(appointed 8 September 2011)
Julian Edwards	(appointed 8 September 2011)
John Curley	(appointed 8 September 2011)
Jeremy Bowen	(appointed 6 October 2011)
Maarten Spaargaren	(appointed 1 December 2011)
Jeroen Weimar	

Directors' report

Charitable contributions

During the period, the company made charitable donations and sponsorship payments of £83,772 (2011 £96,337) principally to local charities and groups serving the communities in which the company operates

Employee involvement and disabled employees

The company gives full and fair consideration to applications for employment from disabled people having regards to their particular aptitudes and abilities Efforts are made to continue the employment of those who become disabled during their employment, and training, career development and promotion is, as far as possible, identical for all employees in accordance with their skills and abilities

The company also has a policy of communicating and consulting with its managers and employees to ensure their active involvement

Disclosure of information to the auditors

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

Directors' report

Auditors

Deloitte LLP resigned as auditors on 10 October 2011 and Ernst & Young LLP were appointed in their place

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

On behalf of the Board

Jeremy Bowen
Director
22 March 2012

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

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

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

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

Independent auditors' report

to the members of Merseyrail Electrics 2002 Limited

We have audited the financial statements of Merseyrail Electrics 2002 Limited for the 52 weeks ended 7 January 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 25 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' 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 the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 7 January 2012 and of its profit for the period 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 auditors' report

to the members of Merseyrail Electrics 2002 Limited

Matters on which we are required to report by exception

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

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

Gary Harding (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Manchester
29 March 2012

Profit and loss account

for the 52 weeks ended 7 January 2012

	Notes	*52 weeks ended 7 January 2012 £000*	*52 weeks ended 8 January 2011 £000*
Turnover	2	131,649	126,264
Cost of sales			
Other cost of sales		(119,403)	(114,352)
Exceptional costs	4	-	(1,327)
Total cost of sales		(119,403)	(115,679)
Operating profit	3	12,246	10,585
Interest receivable and similar income	7	142	127
Interest payable and similar charges	8	(239)	(190)
Other finance income		210	100
Profit on ordinary activities before taxation		12,359	10,622
Tax	9	(3,442)	(3,009)
Profit for the financial period	20	8,917	7,613

All amounts relate to continuing operations

Statement of total recognised gains and losses

for the 52 weeks ended 7 January 2012

	Note	*52 weeks ended 7 January 2012 £000*	*52 weeks ended 8 January 2011 £000*
Profit for the financial period		8,917	7,613
Actuarial profit/(loss) relating to pension scheme	22	3,874	(389)
Deferred tax attributable to actuarial (profit)/loss		(1,046)	105
Adjustment due to change in deferred tax rate		(82)	(66)
Total recognised gains and losses for the period		11,663	7,263

Balance sheet

at 7 January 2012

	Notes	7 January 2012 £000	8 January 2011 £000
Fixed assets			
Intangible assets	11	2,594	2,749
Tangible assets	12	8,691	8,730
		11,285	11,479
Current assets			
Stocks	14	1,561	1,360
Debtors	15	7,374	6,118
Investments	13	2,000	2,000
Cash at bank and in hand		13,080	11,299
		24,015	20,777
Creditors amounts falling due within one year	16	(25,135)	(22,227)
Net current liabilities		(1,120)	(1,450)
Total assets less current liabilities		10,165	10,029
Creditors amounts falling due after more than one year	17	(2,051)	(2,513)
Net assets before pension liability		8,114	7,516
Pension liability	22	(3,076)	(5,372)
Net assets after pension liability		5,038	2,144
Capital and reserves			
Called-up share capital	18	-	-
Profit and loss account	19	5,038	2,144
Total shareholders' funds	20	5,038	2,144

The financial statements of Merseyrail Electrics 2002 Limited were approved by the Board of Directors on 22nd March 2012

Jeremy Bowen

Director

Notes to the financial statements

at 7 January 2012

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards The principal accounting policies have been applied consistently throughout the current and previous period

Going concern

The nature of the Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator and having reviewed the budgets and forecasts for a 12 month period from the date of signing the financial statements, the directors are confident that the business will continue to be cash generative The directors believe this will be achieved without the need for third party funding in the foreseeable future Accordingly, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for its foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Statement of cash flows

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

Goodwill and intangible fixed assets

For acquisition of a business, purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life of 25 years The directors regard 25 years as a reasonable maximum for the estimated useful life of goodwill since it coincides with the life of the rail concession (25 years) and also it is difficult to make projections exceeding this period

Other intangible fixed assets are capitalised in the year they are incurred and amortised over their useful economic lives The concession costs incurred in the period ended 3 January 2004 (shown in note 11) are amortised over the life of the concession (25 years)

Tangible fixed assets

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

Depreciation is provided at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life at the following annual rate

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

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

Notes to the financial statements

at 7 January 2012

1. Accounting policies (continued)

Turnover

Passenger income is included in turnover

Concession payments relate to amounts received from Merseyside Passenger Transport Executive (MPTE) under the Concession Agreement to operate Merseyrail trains Other turnover arises from the provision of ancillary services to external parties

All turnover is recognised at the point at which the service is provided

Stocks

Stock is stated at the lower of cost and net realisable value Cost includes materials and consumable goods Provision is made for obsolete, slow-moving and defective items where appropriate

Current asset investments

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

Grants

Capital grants and other contributions received towards the cost of tangible fixed assets are included as deferred income in the balance sheet and credited to the profit and loss account over the life of the asset Revenue grants are credited to the profit and loss account to match off with the expenditure to which they relate

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes to the financial statements

at 7 January 2012

1. Accounting policies (continued)

Leasing and hire purchase commitments

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

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

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

Pension costs

Pension costs are accounted for in accordance with Financial Reporting Standard 17 'Retirement Benefits' For the defined benefit pension scheme, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments They are included as part of staff costs Past service costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs The interest cost and the expected return on assets are shown as a net amount of other financial costs or credits adjacent to interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax A 'franchise adjustment' is made to the deficit on this basis The franchise adjustment is the projected deficit at the end of the franchise term, which the company will not be required to fund, discounted back to present value

The defined benefit pension scheme is funded, with the assets held separately from those of the company, in separate trustee administered funds Pension scheme assets are measured at bid value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Notes to the financial statements

at 7 January 2012

2. Turnover

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

3. Operating Profit

This is stated after charging/(crediting)

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Operating profit is stated after charging		
Loss on disposal of fixed asset	47	1
Depreciation and amortisation		
– intangible fixed assets	155	156
– tangible fixed assets	1,203	1,152
Operating lease rentals		
– plant and machinery	12,126	11,916
– access charges payable to Network Rail	10,847	10,613
– land and buildings	5,911	5,665

The analysis of auditors' remuneration is as follows		
Fees payable to the company's auditors for the audit of the company's annual financial statements	40	50
Fees payable to the company's auditors and their associates for other services to the group		
- the tax services of the company's subsidiaries	7	-
– other services	-	3
	47	53

4. Exceptional costs

In the prior year, there was an ongoing dispute within the industry between several Train Operating Companies ('TOCs') and the British Transport Police Association (BTPA) regarding the charging methodology for their Transport Police Services The principal issue related to changes in the charging basis introduced by the BTPA with effect from 1 April 2007, which were being disputed by a number of TOCs on the basis that the changes were unlawfully implemented The dispute was settled on 12 March 2010, which resulted in the company making a payment of £1,327,004 to the BTPA in settlement of prior period Transport Police services

Notes to the financial statements

at 7 January 2012

5. Directors' remuneration

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Remuneration	576	583
Pension contributions	47	47
	623	630
Remuneration of the highest paid director	221	239

The company contributed £3,030 (2011 £2,615) to the pension scheme of the highest paid director

The number of directors who were members of the defined benefit pension scheme at the period end was 1 (2001 1)

During the year Peter Morton and Kevin Thomas, directors of the company, were granted 7,526 shares (2011 6,270) in Serco Group plc at £0 02 option price as part of a performance share plan scheme During the year, these same directors exercised 2,986 shares (2010 2,843) at £0 02 option price There was no material difference between the grant option price and fair value price at the year end

6. Staff costs

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Wages and salaries	39,178	36,373
Social security costs	2,848	2,554
Pension costs – defined benefit scheme (note 22)	4,262	3,480
Pension costs – personal pension schemes	35	37
	46,323	42,444

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

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	No	*No*
Operational	901	898
Engineering and maintenance	171	142
Administration and support	145	135
	1,217	1,175

Notes to the financial statements

at 7 January 2012

7. Interest receivable and similar income

	52 weeks ended 7 January 2012 £000	*52 weeks ended 8 January 2011 £000*
Bank interest	139	127
Other interest	3	-
	142	127

8. Interest payable and similar charges

	52 weeks ended 7 January 2012 £000	*52 weeks ended 8 January 2011 £000*
Loan interest	90	90
Finance lease interest	149	100
	239	190

9. Tax

(a) Tax on Profit on ordinary activities

The tax charge is made up as follows

	52 weeks ended 7 January 2012 £000	*52 weeks ended 8 January 2011 £000*
Current tax.		
UK corporation tax on the profit for the period	(3,626)	(3,188)
Adjustment in respect of prior periods	(4)	77
Total current tax (note 9(b))	(3,630)	(3,111)
Deferred tax·		
Origination and reversal of timing differences	24	20
Adjustment in respect of prior periods	5	(31)
Impact on deferred tax of change in tax rate	(7)	(2)
Pension cost change in excess of pension relief	166	115
Tax on Profit on ordinary activities	(3,442)	(3,009)

Notes to the financial statements

at 7 January 2012

9. Tax (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26 5% (8 January 2011 – 28%) The differences are explained below

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Profit on ordinary activities before tax	12,359	10,622
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (8 January 2011 – 28%)	(3,275)	(2,974)
Effects of		
Expenses not deductible for tax purposes	(166)	(194)
Short term timing differences	(240)	(7)
Depreciation in excess of capital allowances	55	(13)
Adjustments in respect of prior periods	(4)	77
Current tax for the period (note 9(a))	(3,630)	(3,111)

(c) Deferred taxation excluding deferred tax on pension liability (note 22)

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Opening asset	84	97
Adjustments in respect of prior years	5	(31)
Current year movement	16	18
Closing asset – included in debtors (note 15)	105	84

Notes to the financial statements

at 7 January 2012

9. Tax (continued)

Analysis of deferred tax balance

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Capital allowances in excess of depreciation	42	12
Short term timing difference	63	72
Deferred tax asset	105	84

The underlying trade of the Company is profitable and profit forecasts support that it is more likely than not that there will be sufficient future trading profits against which the timing differences giving rise to the deferred tax asset will reverse

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

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

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

10. Dividends

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Equity dividends paid of £4,384,500 per share (2011 £3,626,000)	8,769	7,252

Notes to the financial statements

at 7 January 2012

11. Intangible fixed assets

Group	*Concession costs* *£000*	*Goodwill* *£000*	*Total* *£000*
Cost			
At 7 January 2012 and 8 January 2011	726	3,190	3,916
Amortisation			
At 8 January 2011	216	951	1,167
Charge for the year	29	126	155
At 7 January 2012	245	1,077	1,322
Net book value			
At 7 January 2012	481	2,113	2,594
At 8 January 2011	510	2,239	2,749

12. Tangible fixed assets

	Leasehold land and buildings *£000*	*Assets in the course of construction* *£000*	*Plant and machinery* *£000*	*Fixtures and fittings* *£000*	*Total* *£000*
Cost					
At 8 January 2011	3,149	435	6,160	4,334	14,078
Additions	-	953	197	61	1,211
Disposals	-	-	(237)	(2)	(239)
Transfers	-	(649)	381	268	-
At 7 January 2012	3,149	739	6,501	4,661	15,050
Accumulated depreciation					
At 8 January 2011	467	–	3,233	1,648	5,348
Charge for the year	109	-	660	434	1,203
Disposals	-	-	(191)	(1)	(192)
At 7 January 2012	576	-	3,702	2,081	6,359
Net book value					
At 7 January 2012	2,573	739	2,799	2,580	8,691
At 8 January 2011	2,682	435	2,927	2,686	8,730

The cost of assets held by the company under finance leases at 7 January 2012 was £1,863,000 (2011 £2,543,000) The accumulated depreciation provided for on those assets at 7 January 2012 was £968,000 (2011 £1,290,000)

Notes to the financial statements

at 7 January 2012

12. Tangible fixed assets (continued)

The costs of assets held by the company financed by a government grant at 7 January 2012 was £1,003,000 (2011 £835,000) The accumulated depreciation provided for on those assets at 7 January 2012 was £63,000 (2011 £nil)

13. Investments

	7 January 2012	*8 January 2011*
	£000	*£000*
Short term deposits and investments	2,000	2,000

Short term investments comprise of fixed term deposits

14. Stocks

	7 January 2012	*8 January 2011*
	£000	*£000*
Raw materials and consumables	1,237	1,147
Work in progress	324	213
	1,561	1,360

15. Debtors

	7 January 2012	*8 January 2011*
	£000	*£000*
Trade debtors	2,702	1,637
VAT	2,068	1,845
Other debtors	206	648
Prepayments and accrued income	2,293	1,904
Deferred tax asset (note 9(c))	105	84
	7,374	6,118

Notes to the financial statements

at 7 January 2012

16. Creditors: amounts falling due within one year

	7 January 2012	*8 January 2011*
	£000	*£000*
Trade creditors	9,650	10,475
Amounts owed to parent undertaking	891	949
Corporation tax payable	1,989	1,601
Other creditors	6,805	3,789
Other taxation and social security	1,094	1,000
Accruals and deferred income	4,399	4,021
Obligations under finance leases	156	241
Bank loans	151	151
	25,135	22,227

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

	7 January 2012	*8 January 2011*
	£000	*£000*
Obligations under finance leases	700	1,011
Bank loans	1,351	1,502
	2,051	2,513
Obligations under finance leases		
Within one year	156	241
Within two to five years	625	783
After five years	75	228
	856	1,252
Loans are repayable as follows		
Within one year	151	151
Within two to five years	606	606
After five years	745	896
	1,502	1,653

Bank loans are secured on the assets to which they relate

The bank loans bear interest at a fixed rate of 6 6945% and are repayable with a quarterly instalment of £60,324 since 11 January 2007

Notes to the financial statements

at 7 January 2012

18. Issued share capital

		7 January 2012		8 January 2011
Allotted, called up and fully paid	*No*	*£*	*No*	*£*
Ordinary shares of £1 each	2	2	2	2

19. Movements on reserves

	Profit and loss account *£000*
At 8 January 2011	2,144
Profit for the financial period	8,917
Dividends paid (note 10)	(8,769)
Actuarial gains and losses (net of deferred tax)	2,746
At 7 January 2012	5,038

20. Reconciliation of shareholders' funds

	52 weeks ended 7 January 2012 *£000*	*52 weeks ended 8 January 2011* *£000*
Profit for the financial period	8,917	7,613
Dividends paid (note 10)	(8,769)	(7,252)
Other recognised gains and losses relating to the period (net of deferred tax)	2,746	(350)
Net increase in shareholders' funds	2,894	11
Opening shareholders' funds	2,144	2,133
Closing shareholders' funds	5,038	2,144

21. Capital commitments

	7 January 2012 *£000*	*8 January 2011* *£000*
Contracted for but not provided in the financial statements	112	31

Notes to the financial statements

at 7 January 2012

22. Pensions

Pension commitments

The company operates a Section of the Railways Pension Scheme ("the Section") This provides benefits for employees based on final pensionable pay The members are expected to meet 40% of the cost of the emerging benefits The employer made contributions of £3,194,000 in the period (8 January 2011 – £2,956,000) The expected employer contributions for the next financial period are estimated at £3,500,000

On 8 July 2010, the UK Minister for Pensions announced the Government's intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for determining the pension increases to be applied to the statutory index-linked features of retirement benefits The Rules of the Section refer directly to the relevant legislation, rather than RPI inflation, in respect of increases to deferred pensions and pensions in payment The Company has therefore allowed for increases to pensions in payment and deferment in line CPI inflation

A CPI inflation of 2 9% p a has been assumed at 7 January 2012 This has been set by making a deduction of 0 5% p a to the RPI inflation assumption

Actuarial assumptions

The full actuarial valuation at 31 December 2007 was updated to 7 January 2012 and 8 January 2011 by a qualified actuary, using the following assumptions in relation to future experience

	7 January 2012	*8 January 2011*	*9 January 2010*
Discount rate	4 70%	5 30%	5 70%
Rate of increase in salaries	3 50%	3 90%	4 00%
Rate of increase in deferred pensions	2 30%	2 90%	3 50%
Rate of increase in pensions in payment	2 30%	2 90%	3 50%
Inflation assumption	3 00%	3 40%	3 50%
Long term rate of return expected	6 15%	6 36%	6 74%

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

Notes to the financial statements

at 7 January 2012

22. Pensions (continued)

The mortality assumptions used were

		7 January 2012	*8 January 2011*
Male aged 65 (current life expectancy)	Pension under £8,500 pa or pensionable pay under £30,000 pa	19 8	19 8
	Others	21 5	21 5
Male aged 45 (life expectancy at age 65)	Pension under £8,500 pa or pensionable pay under £30,000 pa	22 2	22.2
	Others	23 7	23 7
Female aged 65 (current life expectancy)	Pension under £8,500 pa or pensionable pay under £30,000 pa	21 7	21.7
	Others	22 7	22 7
Female aged 45 (life expectancy at age 65)	Pension under £8,500 pa or pensionable pay under £30,000 pa	23 2	23 2
	Others	24 2	24 2

Notes to the financial statements

at 7 January 2012

22. Pensions (continued)

The net liability of the group is summarised as follows

	7 January 2012 Value £000	*8 January 2011 Value £000*	*9 January 2010 Value £000*	*3 January 2009 Value £000*	*5 January 2008 Value £000*
Total market value of assets	95,596	92,916	81,766	69,802	89,300
Present value of scheme liabilities	(143,050)	(128,774)	(120,155)	(79,146)	(96,141)
Members' share of deficit	18,982	14,343	15,356	3,738	2,736
Franchise adjustment	24,371	14,156	16,487	–	–
Deficit in scheme	(4,101)	(7,359)	(6,546)	(5,606)	(4,105)
Related deferred tax asset	1,025	1,987	1,833	1,570	1,149
Net pension liability	(3,076)	(5,372)	(4,713)	(4,036)	(2,956)

Fair value of assets

The assets in the scheme were

	7 January 2012 %	*7 January 2012 Value £000*	*8 January 2011 %*	*8 January 2011 Value £000*
Equities	61 9	59,207	70 1	65,115
Bonds/Gilts	14 3	13,612	10 6	9,881
Property	9 1	8,732	9 3	8,667
Cash and other	14 7	14,045	10 0	9,253
	100%	95,596	100%	92,916

	52 weeks ended 7 January 2012 £000	*52 weeks ended 8 January 2011 £000*
Amounts included within operating profit		
Current service cost	4,020	3,480
Brass contributions	242	253
Total included within operating profit	4,262	3,733
Amounts included as other finance (income)/costs		
Expected return on scheme assets	(3,600)	(3,360)
Interest cost on scheme liabilities	4,140	4,200
Interest on franchise adjustment	(750)	(940)
Net finance return	(210)	(100)

Notes to the financial statements

at 7 January 2012

22. Pensions (continued)

History of experience gains and losses

	52 weeks ended 7 January 2012 £000	*52 weeks ended 8 January 2011 £000*	*53 weeks ended 9 January 2010 £000*	*52 weeks ended 3 January 2009 £000*	*52 weeks ended 5 January 2008 £000*
Difference between actual and expected return on scheme assets	(3,550)	1,823	2,974	(16,954)	(88)
Experience gains arising on scheme liabilities	(1,599)	1,067	(700)	(400)	(440)
Total pension cost recognised in the statement of total recognised gains and losses	3,874	(389)	(874)	(1,372)	(1,650)

The cumulative amount of actuarial gains and losses recognised since 2003 in the statement of total recognised gains and losses is a net gain of £2,916,000 (2011 loss of £958,000)

	52 weeks ended 7 January 2012 £000	*52 weeks ended 8 January 2011 £000*
Analysis of the change in benefit obligation during the period		
Benefit obligation at beginning of the period	128,774	120,155
Current service cost – Employer (including Brass)	4,262	3,733
Current service cost – Employee	2,680	2,320
Interest cost – Employer	4,140	4,200
Interest cost – Employee	2,760	2,800
Actuarial loss/(gain)	3,410	(1,759)
Benefits paid (including Brass)	(2,976)	(2,675)
Benefit obligation at end of period	143,050	128,774

Notes to the financial statements

at 7 January 2012

22. Pensions (continued)

	52 weeks ended 7 January 2012 *£000*	*52 weeks ended 8 January 2011* *£000*
Analysis of the change in plan assets during the period		
Fair value of plan assets at beginning of the period	92,916	81,766
Expected return on plan assets – Employer	3,600	3,360
Expected return on plan assets – Employee	2,400	2,240
Actuarial (losses)/gains	(5,917)	3,039
Employer contribution	3,194	2,956
Employer Brass matching contributions	242	253
Member contributions	2,137	1,977
Benefits paid (including Brass)	(2,976)	(2,675)
Fair value of plan assets at end of period	95,596	92,916

23. Other financial commitments

At 7 January 2012 the company had annual commitments under non-cancellable operating leases as set out below

	7 January 2012 *Land and buildings* *£000*	*7 January 2012* *Other* *£000*	*8 January 2011* *Land and buildings* *£000*	*8 January 2011* *Other* *£000*
Operating leases which expire				
Within one year	-	28	–	37
Within two to five years	5,623	8,716	5,306	7,940
After five years	455	11,885	421	11,945
	6,078	20,629	5,727	19,922

Notes to the financial statements

at 7 January 2012

24. Related party transactions

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

Serco Group plc

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Other trading transaction income including salary recharges	-	(10)
Executive salaries and expense recharges (including non directors)	350	401
Dividends paid and proposed	4,384	3,626
Other trading transaction costs	125	451

All of the above expenses/(income) were payable to/(receivable from) Serco Group plc and its subsidiaries which are related parties by virtue of Serco Group plc owning 50% of the issued share capital of the company At the period end, the company owed Serco Group plc £167,815 (8 January 2011– £60,462) At the period end, the company was owed £nil by Serco Group plc (8 January 2011– £11,750)

NV Nederlandse Spoorwegen

	52 weeks ended 7 January 2012	*52 weeks ended 8 January 2011*
	£000	*£000*
Other trading transaction income including salary recharges	(6)	(23)
Executive salaries and expense recharges (including non directors)	154	294
Dividends paid and proposed	4,384	3,626
Other trading transaction costs	323	30

All of the above expenses were payable to NV Nederlandse Spoorwegen and its subsidiaries which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company At the period end, the company owed NV Nederlandse Spoorwegen £nil (2011 £1,232,221with £1,192,218 of this balance relating to consortium tax relief which is held within Corporation tax on the balance sheet) At the period end, the company was owed £nil by NV Nederlandse Spoorwegen (2011 £11,320)

Notes to the financial statements

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25. Ultimate parent undertaking and controlling parties

The immediate parent company of Merseyrail Electrics 2002 Limited is Merseyrail Services Holding Company Limited Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ

The ultimate and controlling parties of Merseyrail Electrics 2002 Limited are NV Nederlandse Spoorwegen and Serco Group plc Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands Copies of the financial statements of Serco Group plc are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY The parent undertaking of the smallest group, which includes the company and for which group accounts are prepared is Merseyrail Services Holding Company Limited, a company incorporated in the UK Copies of the financial statement of Merseyrail Services Holding Company Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ