Northern Rail Limited

Report and Financial Statements

5 January 2013

Officers and Professional Advisors

Directors
Ian Bevan
Dominic Booth
Jamie Burles
Stephen Butcher
Julian Edwards
Jonathan Stewart
Jonathan Brown
Jan Chaudhry
Joanne Roberts

Secretary
Ian Bevan

Auditors
Ernst & Young LLP
100 Barbirolli Square
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Directors' report

The directors present their report and financial statements for the 52 weeks ended 5 January 2013

Results and dividends

The Profit for the period after taxation amounted to £33,033,000 (52 weeks ended 7 January 2012 – profit of £27,575,000)

The directors recommended a final dividend of £12,100,000, which was paid on 20 December 2012, together with interim dividends of £4,000,000 which were paid on 29 March 2012, £6,300,000 paid on 28 June 2012, £7,100,000 paid on 26 September 2012 and £4,700,000 paid on 31 October 2012

Principal activities and review of the business

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

Northern Rail Limited ('Northern') employs around 4,900 people, runs 2,500 train services every day, and has a portfolio of 464 stations The Northern operation represents 20% of the total of Britain's national rail network Operations range from single-track branch lines with very simple track, signalling and station infrastructure, to multi-trafficked high speed and densely used parts of the network

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

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

Initiatives

In May 2012 the Department for Transport announced a continuation to the Northern franchise This means Northern will continue to operate local and regional rail services across the north of England until 1 April 2014

Exceptional weather adversely affected Northern's operational performance in 2012 with flooding causing disruption to a number of routes across the network However, as the year closed we began to see a return to our previous improving trajectory When the franchise began in December 2004 the public performance measure (PPM) moving annual average, which represents the number of trains on time over the previous 12 months, was 83 79% In the 12 months to 5 January 2013 our PPM averaged 91 35%, without the impact of flooding this would have been 91 75%

At Northern, we recognise that accurate and timely information is important for customers, particularly when services are disrupted. That is why we have continued to work with our industry partners to install more customer information screens and public announcement systems at stations and introduced new ways for customers to check how their train is running and other information This has included a more comprehensive 'Journey Check' service on our website and the launch of the Northern App in December 2012

Northern's partnership approach has also delivered improvements to facilities for passengers at a number of stations across our network, including the refurbishment of waiting rooms and shelters, CCTV, lighting, help points and more level access

Directors' report continued

Initiatives (continued)

Following a re-design of the Northern Rail uniform during 2012, Northern donated over 3000 items of clothing to the Salvation Army Trading Company Ltd These items will be re-used or recycled and means profit sold from the donations will be used to help homeless charities, elderly care and also with emergency incidents

Recognition

Northern is committed to becoming a more sustainable, responsible and diverse business In 2012 we achieved a five star rating and finalist status at the UK Excellence awards for the second year running, recognition of our commitment to business improvement We also achieved Gold status in the Business in the Community 2012 Corporate Responsibility Index (CRI), the UK's leading voluntary benchmark of corporate responsibility, this was an improvement on the Silver status in 2011

Throughout 2012, Northern have continued to reduce both their carbon footprint and fuel emissions Each year since 2007, Northern have measured their carbon footprint, covering the whole business (Scope 1-3 Greenhouse gas emissions) and 2011 was the 5th year in a row that it has reduced In absolute terms Northern have reduced emissions by 23% which equates to just under 100,000 tonnes CO2e Northern have the right plans in place to succeed in reducing its impact on the environment each year, including more accurate measurement of consumption, improving energy efficiency of the estate, and a number of fuel reducing initiatives including a responsible driving programme

The company won the overall Winner's prize at the Association of Community Rail partnerships awards in 2012 Northern were recognised as contributing the most to community rail development over the previous 12 months During 2012, Northern have supported 18 Community Rail Partnerships, promoting rural lines and bringing the railway and local communities closer together

Northern Rail's Community Ambassadors Scheme was awarded gold at the Railway Industry Innovation Awards The scheme was created to promote the use of local rail services across all communities Partnerships with local colleges and businesses have meant that there is a greater education and awareness of the facilities on people's doorsteps, encouraging people to make the most of their local train services

Health and safety

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

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

Northern's performance in occupational health and safety was recognised once again, taking the Transport Sector Award for the fourth year and the Workforce Involvement in Safety and Health for the second time at the national RoSPA (Royal Society for Prevention of Accidents) Awards

Directors' report continued

Trading results

The Directors are satisfied with the performance of the company during the period Turnover was £592 5m, which was an increase of 3 8% on the previous period (52 weeks ended 7 January 2012 – £570 6m) Operating profit of £33 5m represented a decrease of 4 8% on the previous period (52 weeks ended 7 January 2012 – £35 2m)

Passenger Revenue of £216 2m was 8 6% above the previous year, and resulted in revenue share payments to the Department of Transport of £16 5m

Northern Rail has invested over £3 1m on capital projects during the year This includes the installation of Ticket Vending Machines and CCTV at stations Station and staff accommodation refurbishments have also been undertaken improving the surroundings and services for both customers and employees There has also been the implementation of various Information Systems solutions, modifications to rolling stock (CCTV on 3 fleets), and also the maintenance of current systems

Outlook

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

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

Principal risks and uncertainties

In common with most train operators the main competitors to our business are the car, taxis and bus operators To mitigate the risks from these pressures, Northern works with stakeholders, shareholders and wider community groups to ensure that Northern services meet and exceed the requirements of our passengers Train service performance continued to improve during the year with the rail industry measure of performance – PPM at 91 35% for the period to 5 January 2013

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

In light of recent Industry Reports there is no reason to expect the current franchise will be extended beyond April 2014

Political and charitable contributions

During the period the company made charitable donations of £37,870 (52 weeks ended 7 January 2012 – £79,075), principally relating to local charities serving the communities in which the company operates

Financial instruments

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

Directors' report continued

Directors

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

Ian Bevan
Dominic Booth
Jamie Burles
Stephen Butcher
Julian Edwards
Jeroen Weimar (Resigned 21st March 2012)
Antoinette Wieman (Appointed 24th January 2012, Resigned 21st March 2012)
John Curley (Appointed 24th January, Resigned 31st Oct 2012)
Jonathan Stewart (Appointed 21st March 2012)
Jonathan Brown (Appointed 21st March 2012)
Jan Chaudry (Appointed 21st March 2012)
Joanne Roberts (Appointed 19th April 2012)

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

Policy and practice on payment of creditors

It is company policy to pay suppliers in accordance with agreed terms and conditions of purchase, provided that the supplier complies with all relevant terms and conditions The policy developed is to pay invoices at the end of the month following the month in which the goods are delivered or the services are performed The average time taken to pay purchase invoices by the company was 55 days (52 weeks ended 7 January 2012 – 54 days)

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

Auditors

In accordance with section 487(2) of the Companies Act 2006, Ernst and Young LLP will continue in office as auditor of the company

On behalf of the Board

Julian Edwards

Date 15 March 2013

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

Independent auditors' report

to the members of Northern Rail Limited

We have audited the financial statements of Northern Rail Limited for the 52 weeks ended 5 January 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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 set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on 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 5 January 2013 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 period for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report (continued)

to the members of Northern Rail 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

Ernst & Young LLP

Gary Harding (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Manchester
Date 19 March 2013

Profit and loss account

for the period ended 5 January 2013

	Notes	52 weeks ended 5 January 2013 £000	52 weeks ended 7 January 2012 £000
Turnover	2	592,458	570,567
Operating expenditure	3	(558,928)	(535,399)
Operating Profit		33,530	35,168
Net finance income	4	4,949	3,361
Profit on ordinary activities before taxation		38,479	38,529
Tax	7	(5,446)	(10,954)
Profit for the financial period	17	33,033	27,575

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the period ended 5 January 2013

	Note	52 weeks ended 5 January 2013 £000	52 weeks ended 7 January 2012 £000
Profit for the financial period		33,033	27,575
Actuarial (loss)/gain relating to pension scheme	19	(326)	436
UK deferred tax attributable to actuarial loss/(gain)		75	(109)
Total recognised gains and losses relating to the period		32,782	27,902

Balance sheet

at 5 January 2013

	Notes	5 January 2013 £000	7 January 2012 £000
Fixed assets			
Intangible assets	9	1,371	2,485
Tangible assets	10	10,072	11,845
Investments	11	–	–
		11,443	14,330
Current assets			
Stocks	12	4,310	4,043
Debtors	13	50,586	45,591
Cash at bank and in hand		31,038	51,233
		85,934	100,867
Creditors amounts falling due within one year	14	(92,447)	(107,825)
Net current liabilities		(6,513)	(6,958)
Total assets less current liabilities		4,930	7,372
Creditors amounts falling due after more than one year	15	(5)	(770)
Net assets excluding pension liability		4,925	6,602
Pension liability	19	(1,073)	(1,332)
Net assets including pension liability		3,852	5,270
Capital and reserves			
Called up share capital	16	–	–
Profit and loss account	17	3,852	5,270
Shareholders' funds	18	3,852	5,270

Julian Edwards

Director

Date 15 March 2013

Notes to the financial statements

at 5 January 2013

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Going concern

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

Turnover

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

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 Northern Rail Holdings Limited, a company incorporated in the United Kingdom, which has included the company in its publicly available group financial statements

Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise, representing the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired Franchise goodwill was capitalised and is written off on a straight line basis over the life of the franchise of 6 ¾ years Franchise bid costs levied on the company were capitalised and amortised over the life of the franchise of 6 ¾ years The life has been extended twice to reflect extensions of the Franchise to March 2014 and amortisation has been adjusted accordingly

Tangible fixed assets

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

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

Notes to the financial statements

at 5 January 2013

1. Accounting policies (continued)

Stocks

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

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 exception

- 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

Operating leases

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

Pensions

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

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax A 'franchise adjustment' is made to the deficit on this basis The franchise adjustment is the projected deficit at the end of the franchise term which the company will not be required to fund, discounted back to present value On transition of a rail franchise an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax This intangible asset is subsequently amortised on a straight line basis over the franchise term

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

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

Notes to the financial statements

at 5 January 2013

1. Accounting policies (continued)

Government grants

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

2. Turnover

The company has one principal class of business being the operation of passenger railway services

Turnover is analysed as follows

	52 weeks ended 5 January 2013	*52 weeks ended 7 January 2012*
	£000	*£000*
Passenger income	216,223	199,000
Grant	324,111	317,432
Other	52,124	54,135
	592,458	570,567

Notes to the financial statements

at 5 January 2013

3. Operating Profit

This is stated after charging/(crediting)

			52 weeks ended 5 January 2013 *£000*	*52 weeks ended 7 January 2012* *£000*
Depreciation of tangible fixed assets			4,892	3,826
Amortisation of intangible fixed assets			1,114	1,114
Rental income receivable			(1,121)	(1,062)
Access and related charges payable to Network Rail			100,319	92,945
Operating lease rentals	–	rolling stock	37,168	35,546
	–	property leases	20,526	19,757
	–	other	1,017	550
The analysis of auditor's remuneration is as follows				
Fees payable to the company's auditors for the audit of the company's annual financial statements				
Previous auditors			–	10
Current auditors			94	76
Total audit fees			94	86
Other services			28	6
Total non-audit fees			28	6
Analysis of operating expenditure in the period				
Raw materials and consumables			59,172	55,502
Staff costs				
	–	wages and salaries	169,179	163,608
	–	social security costs	13,450	12,510
	–	other pension costs	20,567	18,248
Other external charges			290,039	279,772
Depreciation and other amounts written off tangible and intangible fixed assets			6,006	4,940
Restructuring costs			515	819
			558,928	535,399

Notes to the financial statements

at 5 January 2013

4. Net finance income

	52 weeks ended 5 January 2013 £000	52 weeks ended 7 January 2012 £000
Bond costs	(119)	(336)
Interest receivable and similar income	318	307
Net return on pension scheme assets (note 19)	4,750	3,390
	4,949	3,361

5. Directors' remuneration

	52 weeks ended 5 January 2013 £000	52 weeks ended 7 January 2012 £000
Total directors' remuneration for the period (excluding pension)	318	535
Total directors' pension contributions	41	60
	359	595
	No	*No*
Number of directors who are members of a defined benefit scheme	2	3

	52 weeks ended 5 January 2013 £000	52 weeks ended 7 January 2012 £000
Remuneration of the highest paid director		
Remuneration of the highest paid director (excluding pension)	214	208
Pension costs in respect of the highest paid director	26	23

The amount of the accrued pension of the highest paid director at 5 January 2013 was £52,033 (7 January 2012 – £45,462) The amount of the accrued lump sum of the highest paid director at 5 January 2013 was £36,812 (7 January 2012 – £33,477)

Dominic Booth, Jamie Burles, Antoinette Wieman and Jan Chaudhry were remunerated through Abellio Transport Holdings Ltd

Julian Edwards was remunerated through Abellio Transport Holdings BV

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

Notes to the financial statements

at 5 January 2013

6. Staff costs

	52 weeks ended 5 January 2013 £000	52 weeks ended 7 January 2012 £000
Wages and salaries	169,179	163,608
Social security costs	13,450	12,510
Pension costs	20,567	18,248
	203,196	194,366

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

	No	No
Operational	3,304	3,330
Engineering and maintenance	845	813
Administration and support	731	714
	4,880	4,857

7. Tax

(a) Tax on Profit on ordinary activities

The tax charge is made up as follows

	52 weeks ended 5 January 2013 £000	52 weeks ended 7 January 2012 £000
Current tax		
UK corporation tax on the profit for the period	10,133	10,826
Adjustment in respect of prior periods	(4,277)	50
Total current tax (note 7(b))	5,856	10,876
Deferred tax		
Origination and reversal of timing differences	(491)	(210)
Movement in pension provision	177	214
Effect of rate change	116	81
Adjustment in respect of prior periods	(212)	(7)
Total deferred tax (note 7(c))	(410)	78
Tax on profits on ordinary activities	5,446	10,954

Notes to the financial statements

at 5 January 2013

7. Tax (continued)

(b) Factors affecting current tax charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 24 5% (52 weeks ended 7 January 2012 – 26 5%) The differences are explained below

	52 weeks ended 5 January 2013	*52 weeks ended 7 January 2012*
	£000	*£000*
Profit on ordinary activities before tax	38,479	38,529
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24 5% (52 weeks ended 7 January 2012 – 26 5%)	9,414	10,191
Effects of		
Expenses not deductible for tax purposes	412	638
Depreciation in excess of Capital Allowances	453	206
Movement in short term timing differences	(146)	(209)
Adjustment in respect of prior periods	(4,277)	50
Current tax for the period (note 7(a))	5,856	10,876

Adjustments in respect of prior periods primarily relates to the resolution of prior year HMRC enquiries

(c) Deferred tax

	£000
At 8 January 2012 including deferred tax on pension liability	920
Credited to the profit and loss account	410
Amount credited to the statement of recognised gains and losses	75
At 5 January 2013 including deferred tax and pensions liability	1,405

The analysis of the deferred tax asset is as follows

	5 January 2013	*7 January 2012*
	£000	*£000*
Included in debtors (note 13)	1,084	476
Included in pensions liability (note 19)	321	444
	1,405	920
Capital allowances in arrears of depreciation	794	465
Provisions	290	11
Pensions costs	321	444
	1,405	920

Notes to the financial statements

at 5 January 2013

7. Tax (continued)

(c) Deferred tax (continued)

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

(d) Factors that may affect future tax charges

In his 2012 Autumn Statement, the Chancellor of the Exchequer announced certain tax changes which have an effect on the Company's future tax position The proposals included a reduction in the corporation tax rate to 21% from 1 April 2014 As at the balance sheet date, only the previously announced reduction in the rate to 23% has been 'substantively enacted' and this has been incorporated into the closing deferred tax balances

The effect of the proposed reduction from 23% to 21%, which has not been 'substantively enacted', would result in a £122k reduction in the deferred tax asset

The rate change would also impact the amount of future cash tax payments 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

8. Dividends

	52 weeks ended 5 January 2013	*52 weeks ended 7 January 2012*
	£000	*£000*
Paid – £8 55m per ordinary share (52 weeks ended 7 January 2012 – £6 90m per ordinary share)	34,200	27,600

The directors recommended a final dividend of £12,100,000 (52 weeks ended 7 January 2012 – £9,800,000), which was paid on 20 December 2012, together with interim dividends of £4,000,000 which were paid on 29 March 2012, £6,300,000 paid on 28 June 2012, £7,100,000 paid on 26 September 2012 and £4,700,000 paid on 31 October 2012

Notes to the financial statements

at 5 January 2013

9. Intangible fixed assets

Group	*Franchise bid costs £000*	*Franchise goodwill £000*	*Total £000*
Cost			
At 8 January 2012 and 5 January 2013	3,712	17,181	20,893
Amortisation			
At 8 January 2012	3,297	15,111	18,408
Charge for the period	187	927	1,114
At 5 January 2013	3,484	16,038	19,522
Net book value			
At 5 January 2013	228	1,143	1,371
At 8 January 2012	415	2,070	2,485

10. Tangible fixed assets

	Short leasehold buildings £000	*Plant and machinery £000*	*Assets under construction £000*	*Total £000*
Cost				
At 8 January 2012	1,045	27,601	286	28,932
Additions	–	3,094	25	3,119
Transfer	–	286	(286)	–
At 5 January 2013	1,045	30,981	25	32,051
Depreciation				
At 8 January 2012	809	16,278	–	17,087
Charge for the period	106	4,786	–	4,892
At 5 January 2013	915	21,064	–	21,979
Net book value				
At 5 January 2013	130	9,917	25	10,072
At 8 January 2012	236	11,323	286	11,845

Assets under construction relate to various on-going station developments and other capital improvement projects

Notes to the financial statements

at 5 January 2013

11. Investments

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

Company name	*Capital*	*Proportion held*	*Activities*
ATOC Limited	£0 04	5 00%	Contracting arm of ATOC
Rail Staff Travel Limited	£0 05	5 00%	Manages staff travel in the industry on behalf of ATOC
Rail Settlement Plan Limited	£0 05	5 00%	Operates the income allocation and settlement routines on behalf of ATOC
NRES Limited	£1 00	5 26%	Provides rail related information to the public
Train Information Services Ltd	£1 00	5 30%	Provides rail related information to the public
Network Ticketing Ltd	£1 00	0 10%	Manages multimodal travel within the industry on behalf of PTE's
Greater Manchester Travel Cards Ltd	£1 00	0 40%	Manages multimodal travel within the industry on behalf of PTE's
West Yorkshire Ticketing Company Ltd	£55 00	25 10%	Manages multimodal travel within the industry on behalf of PTE's

12. Stocks

	5 January 2013	*7 January 2012*
	£000	*£000*
Raw materials and consumables	4,310	4,043

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

13. Debtors

	5 January 2013	*7 January 2012*
	£000	*£000*
Trade debtors	33,264	26,852
Other debtors	5,022	9,377
Deferred taxation (note 7(c))	1,084	476
Amounts due from related parties (note 23)	309	79
Prepayments and accrued income	10,907	8,807
	50,586	45,591

Notes to the financial statements

at 5 January 2013

14. Creditors: amounts falling due within one year

	5 January 2013	*7 January 2012*
	£000	*£000*
Trade creditors	28,817	37,911
Corporation tax	5,027	8,997
Other creditors	12,295	7,098
Other taxes and social security costs	3,953	7,590
Accruals and deferred income	39,967	45,271
Amounts due to related parties (note 23)	1,986	356
Loans payable	402	602
	92,447	107,825

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

	5 January 2013	*7 January 2012*
	£000	*£000*
Deferred grant income	-	212
Other creditors	5	156
Loans payable	-	402
	5	770

16. Issued share capital

		5 January 2013		*7 January 2012*
Allotted, called up and fully paid	*No*	*£*	*No*	*£*
'A' ordinary shares of £1 each	3	3	3	3
'B' ordinary shares of £1 each	1	1	1	1
		4		4

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

Notes to the financial statements

at 5 January 2013

17. Movements on reserves

	Profit and loss account £000
At 8 January 2012	5,270
Profit for the period	33,033
Actuarial loss relating to pension scheme	(326)
UK deferred tax attributable to actuarial loss	75
Dividends	(34,200)
At 5 January 2013	3,852

18. Reconciliation of shareholders' funds

	5 January 2013 £000	*7 January 2012 £000*
Profit for the period	33,033	27,575
Other recognised gains and losses (net)	(251)	327
Dividends	(34,200)	(27,600)
Net (decrease)/increase in shareholders' funds	(1,418)	302
Opening shareholders' funds	5,270	4,968
Closing shareholders' funds	3,852	5,270

19. Pensions

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

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

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax A 'franchise adjustment' is made to the deficit on this basis The franchise adjustment is the projected deficit at the end of the franchise term which the company will not be required to fund, discounted back to present value On transition of a rail franchise, an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax This intangible asset is subsequently amortised on a straight line basis over the franchise term

The most recent actuarial valuations of the scheme assets and the present value of the defined benefit obligation were carried out at 5 January 2013 by Mercer Human Resources The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit method

Notes to the financial statements

at 5 January 2013

19. Pensions (continued)

Combined divisions

The following assumptions have been used for both divisions

	5 January 2013	*7 January 2012*	*8 January 2011*
Discount rate	4 60%	4 70%	5 40%
Rate of increase in salaries	3 40%	3 50%	3 90%
Rate of increase in deferred pensions	2 20%	2 30%	2 90%
Rate of increase in pensions in payment	2 20%	2 30%	2 90%
Inflation assumption	2 90%	3 00%	3 40%

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

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

Eastern division

	5 January 2013 *£000*	*7 January 2012* *£000*	*8 January 2011* *£000*
Total market value of assets	272,631	245,787	238,477
Present value of scheme liabilities	(389,094)	(378,763)	(333,675)
Deficit in the scheme	(116,463)	(132,976)	(95,198)
Members' share of deficit	46,586	53,191	38,079
Franchise adjustment	68,845	79,033	55,870
Company's share of deficit	(1,032)	(752)	(1,249)
Related deferred tax asset	238	188	337
Net pension liability	(794)	(564)	(912)

Western division

	5 January 2013 *£000*	*7 January 2012* *£000*	*8 January 2011* *£000*
Total market value of assets	233,989	211,696	206,161
Present value of scheme liabilities	(300,505)	(290,795)	(261,179)
Deficit in the scheme	(66,516)	(79,099)	(55,018)
Members' share of deficit	26,606	31,639	22,008
Franchise adjustment	39,548	46,436	31,257
Company's share of deficit	(362)	(1,024)	(1,753)
Related deferred tax asset	83	256	474
Net pension liability	(279)	(768)	(1,279)

Notes to the financial statements

at 5 January 2013

19. Pensions (continued)

Amounts included within operating profit

Combined divisions	*52 weeks ended 5 January 2013*	*52 weeks ended 7 January 2012*
	£000	*£000*
Current service cost	20,567	18,248
Total included within operating profit	20,567	18,248

Amounts included in net finance income

Combined divisions	*52 weeks ended 5 January 2013*	*52 weeks ended 7 January 2012*
	£000	*£000*
Expected return on scheme assets	18,060	18,240
Interest cost on scheme liabilities	(19,200)	(19,560)
Interest on franchise adjustment	5,890	4,710
Net finance return	4,750	3,390

Analysis of amount recognised in statement of total recognised gains and losses

Combined divisions	*52 weeks ended 5 January 2013*	*52 weeks ended 7 January 2012*
	£000	*£000*
Actual return less expected return on assets	(5,183)	29,802
Experience gains and losses on liabilities	(4,572)	4,180
Gains and losses on change in assumptions	(12,884)	(786)
Experience gains and losses on franchise adjustment	22,965	(33,632)
Actuarial loss/(gain) recognised	326	(436)

Notes to the financial statements

at 5 January 2013

19. Pensions (continued)

History of the experience gains and losses recognised in statement of total recognised gains and losses

Combined divisions	*2013*	*2012*	*2011*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*	*£000*
Difference between expected and actual returns on scheme assets	(5,183)	29,802	(14,554)	(22,779)	136,834
Percentage of scheme assets	1%	6%	3%	6%	(41%)
Experience gains and losses on scheme liabilities	(17,456)	3,394	(6,983)	105,116	(112,512)
Percentage of scheme liabilities	(3%)	(1%)	(1%)	18%	(33%)
Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment	(22,639)	33,196	(21,538)	82,337	24,322
Percentage of scheme liabilities	3%	5%	4%	14%	7%
Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment	326	(436)	2,900	(1,707)	7,374

Notes to the financial statements

at 5 January 2013

20. Analysis of the movement in the scheme deficit during the period

Combined divisions	*5 January 2013* *£000*	*7 January 2012* *£000*
Change in benefit obligation		
Benefit obligation at beginning of period	(669,558)	(594,854)
Current service cost	(33,529)	(29,740)
Past service cost	(157)	(69)
Interest cost	(32,000)	(32,600)
Actuarial gain	32,554	(25,523)
Benefits paid	13,091	13,228
Benefit obligation at end of period	(689,599)	(669,558)
Change in plan assets		
Fair value of plan assets at beginning of period	457,483	444,638
Expected return on plan assets	30,100	30,400
Actuarial gain	5,183	(29,802)
Contributions	26,216	24,635
Additional contributions – brass matching	729	840
Benefits paid	(13,091)	(13,228)
Fair value of plan assets at end of period	506,620	457,483
Funded status	(182,979)	(212,075)
Members share of surplus/(deficit) at end of year	73,192	84,830
Franchise adjustment	108,393	125,469
Net amount recognised	(1,394)	(1,776)
Related deferred tax asset	321	444
	(1,073)	(1,332)

Cumulative gains since the adoption of FRS17 amount to £14,294,000 (52 weeks ended 7 January 2012 – £14,620,000)

Notes to the financial statements

at 5 January 2013

21. Other financial commitments

On 4th February 2005, the company signed an agreement with Network Rail Infrastructure Ltd for access to the railway infrastructure The most recent contract was signed on 6th January 2010, which took effect from 12th December 2010 and will expire at the end of 2013 The variable charges cover track usage, traction and EC4T, and are primarily dependent upon train miles run

The company has contracts which commit it to lease rolling stock from Angel Trains Contracts Ltd, West Yorkshire Passenger Transport Executive, Eversholt Rail (UK) Limited and Porterbrook Leasing Company Limited

At 5 January 2013 the company had annual commitments under non-cancellable operating leases as set out below

	Fixed Track Access	*Property*	*Rolling stock*	*Other*
	£000	*£000*	*£000*	*£000*
Operating leases which expire				
Within one year	117,695	511	-	72
In two to five years	-	20,584	37,908	374
	117,695	21,095	37,908	446

22. Contingent liabilities

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

The initial expiry date of the franchise was 18 September 2011 However, during 2012 this was extended to 12th October 2014 The performance bond amount as at 5 January 2013 was £26,062,152 (7 January 2012 – £29,232,296)

In addition Northern Rail Limited, as the franchisee, has procured two season ticket bonds in favour of the Department for Transport The bonds are dated 3 December 2004 and took effect from the franchise commencement date of 12 December 2004 The total season ticket bond value as at 5 January 2013 was £4,823,000 (7 January 2012 – £3,906,000)

Notes to the financial statements

at 5 January 2013

23. Related party transactions

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

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

	52 weeks ended 5 January 2013	*52 weeks ended 7 January 2012*
	£000	*£000*
Expense recharges	(4)	-
Expense recharges	590	160
Salary recharges	(49)	-
Interest	170	175

All of the above expenses were payable to Serco Group plc and its subsidiaries, which are related parties by virtue of Serco Group plc owning 50% of the issued share capital of the company's immediate parent undertaking At 5 January 2013, amounts due to Serco Group plc amounted to £58,417 (7 January 2012 – amounts due to Serco Group plc amounted to £45,000 and amounts due from Serco Group plc amounted to £39,000)

	52 weeks ended 5 January 2013	*52 weeks ended 7 January 2012*
	£000	*£000*
Expense recharge	(102)	(49)
Expense recharge	-	6
Salary recharge	(820)	(242)
Salary recharge	-	40
Interest	170	161
Commission payable	1,126	159

All of the above expenses were payable to/receivable from NV Nederlandse Spoorwegen and its subsidiaries, which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company's immediate parent undertaking At 5 January 2013, amounts due to NV Nederlandse Spoorwegen amounted to £1,928,076 and amounts due from NV Nederlandse Spoorwegen amounted to £309,027 (7 January 2012 – amounts due to NV Nederlandse Spoorwegen amounted to £311,000 and amounts due from NV Nederlandse Spoorwegen amounted to £40,000)

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24. Ultimate parent undertaking and controlling party

The ultimate controlling parties of Northern Rail Limited are NV Nederlandse Spoorwegen and Serco Group plc These companies each own 50% of the share capital of Northern Rail Holdings Limited under a joint venture agreement Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands Copies of the financial statements of Serco Group plc are available from Dolphin House, Windmill Road, Sunbury-on-Thames, Middlesex, TW16 7HT The immediate parent undertaking of the smallest group, which includes the company and for which group financial statements are prepared is Northern Rail Holdings Limited, a company incorporated in the UK Copies of the financial statements of Northern Rail Holdings Limited are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom

25. Financial instruments not included at fair value

The company operates passenger railway services in the UK and, as such, is exposed to movements in fuel prices and related exchange rates To protect cash flows, the company enters into commodity swap contracts, currently on a rolling monthly basis, to hedge a proportion of its exposures to fuel price and related foreign exchange movements The commodity swap contracts were in place during 2012 between Northern Rail Limited and Credit Agricole, an investment bank and BP

The commodity swap contract was cash settled and ran from 1 October 2011 to 18 September 2013 The total volume for the contract was 74,175,460 litres, at a fixed rate of £0 4296 per litre for the term of the contract Credit Agricole paid a floating rate on this contract The floating rate was calculated as the daily 0 1% CIF NWE price in USD per tonne converted into litres and then into GBP at the daily spot rate On the 1 January 2012 this hedge was superseded and replaced by a new floating rate This revised rate was calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate The hedge runs from 1 January 2012 to 18 September 2013 The total volume for the contract is 64,631,205 litres at a rate of £0 4481 per litre

A new hedge will become effective from 19 September 2013 to 31March 2014 This is calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate The total volume for the contract is 22,322,800 litres at a rate of £0 4870 per litre

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

The fair value of the fuel hedge asset at 5 January 2013 was calculated to be £1,936,624 (7 January 2012 – £4,823,746)