

Company Registration No. 4007719

NORTHERN RAIL HOLDINGS LIMITED

Report and Financial Statements

9 January 2010

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NORTHERN RAIL HOLDINGS LIMITED

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NORTHERN RAIL HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS 2009

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Dominic Booth
Antoine Valk
Alan Wilson
Craig Nunn
Richard Emmerink
Tom Riall

REGISTERED OFFICE

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY

BANKERS

National Westminster Bank
Staines Branch
67 High Street
Staines
Middlesex
TW18 4PU

SOLICITORS

Denton Wilde Sapte
One Fleet Street
London
EC4M 7WS

AUDITORS

Deloitte LLP
Chartered Accountants and Registered Auditors
Leeds

NORTHERN RAIL HOLDINGS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 9 January 2010

PRINCIPAL ACTIVITIES

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. The franchise commenced on 12 December 2004 operating until September 2013 (subject to being granted a two year extension in 2011). Northern Rail Holdings Limited, the company's parent company is a joint venture company owned by Serco Group plc and Abellio Transport Holdings BV.

Northern Rail Limited ("Northern") employs more than 4,700 people and operates approximately 2,500 daily train services with a portfolio of 462 stations. The Northern operation represents 20% of the total of Great 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 diesel or 25kV AC electric multiple units, generally operating in formations of between one and four cars, with some peak hour trains strengthened to be longer than this. Northern maintains most of the rolling stock fleet it operates through three large depots at Manchester (Newton Heath), Leeds (Neville Hill) and Newcastle (Heaton).

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. Eight city regions provide the powerhouse for economic prosperity across the regions. These city regions, as well as being large employment centres, have also experienced economic and social regeneration. 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.

BUSINESS REVIEW

We use business planning processes based on the European Foundation for Quality Management (EFQM) to deliver our short and long-term business objectives. This section sets out the significant progress and achievements of 2009, which was the fifth full trading year for Northern. Key achievements included the following -

INITIATIVES

We have made excellent progress in delivering several key targets this year, including achieving a major milestone for train performance.

When Northern started in December 2004 the number of trains on time over the previous 12 months (called the moving annual average) was 83.79%. We have developed an excellent partnership with Network Rail, the owner and operator of the rail infrastructure, and improved that moving annual average to 90% in May 2009, a significant milestone. That figure had risen further to 91.84% at the end of December 2009. The improvement over the last five years equates to 170 more trains being on time every day now than in 2004.

This result puts us in a strong position to achieve four performance targets (service delivery minutes, cancellations, capacity and Network Rail delay minutes), which were agreed with the Department for Transport at the start of our franchise. If we achieve those targets then Northern will be awarded an automatic franchise extension from September 2011 to September 2013.

It has been an excellent year for innovation, with funding agreed for our Dutch-style Cyclepoint facility at Leeds station, which we expect to open in spring 2010, and for our proposed ecostation at Accrington.

We had some great events for stakeholders, including our annual 'Grand Day Out' to say thank you to supporters and volunteers for all their hard work over the year. This year we attracted a record 500 guests to join three special trains to York. We launched our new Partnership Development Plan (PDP) at our second annual stakeholder conference, held this year in Accrington.

The UK trial of tram-trains now has a clear way forward, with the project partners (Northern, Network Rail and the Department for Transport) agreeing to switch the phasing of the project so that the tram-trains run first between Rotherham and Sheffield, using the heavy rail network and the Sheffield Supertram.

Finally, we continue to work with the Department for Transport (DfT) to introduce additional carriages to the Northern franchise between now and 2014. The DfT published its rolling stock plan in January 2008, and this sets out their view of the number of additional carriages needed by each train operator to deliver more capacity on the rail network. An update to the rolling stock plan is expected soon, to take into account the recent announcement that

NORTHERN RAIL HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

the Great Western Main Line and one route between Manchester and Liverpool are to be electrified. This will mean moving trains between operators to make the best use of train fleets, and we are pushing hard for Northern to get the right outcome for our customers and stakeholders.

RECOGNITION

Northern was delighted to be awarded the highly prestigious Sir George Earle Trophy at the 2009 RoSPA (Royal Society for the Prevention of Accidents) awards. The trophy is widely regarded as the UK's premier award for recognising outstanding health and safety management performance and we are the first train operator to win the trophy in its 53 year history.

At the same time we also received the WISH (Workforce Involvement in Safety and Health) trophy, in recognition of the great work that we all do (in partnership with our trades union colleagues), to ensure we maintain our exceptional safety standards. We also achieved a gold achievement award and the award for the best safety management system in the transport and distribution sector too.

We continued our run of success at the National Rail Awards, one of our conductors, Lol Jones, won the award for outstanding personal contribution. The judges said Lol is "an incredible man an inspirational man with that 'X Factor' you want the winner to have".

Settle Station in North Yorkshire won the Small Station of the Year category at the same awards. The judges said "Settle is a real gem of a station, and demonstrates what can be achieved by a partnership of the train operating company and the wider community".

Earlier in the year Heidi Mottram, former Managing Director, was chosen as Rail Business Manager of the Year at the HSBC Rail Business Awards, and at the end of 2009 Heidi was awarded an OBE in the New Year's Honours.

Finally, we were a finalist in the annual North of England Excellence Awards and went on to win a special award for Leadership. We recently received confirmation that we have been accredited with Investors in Excellence – the first train operator to do so.

SAFETY

Northern takes its safety responsibility very seriously and has numerous processes and initiatives to protect its employees and passengers. There is close involvement of Directors and Trade Union Safety Representatives to continually review progress and incidents that could be of concern. One of the many initiatives being pursued included work with drivers to reduce the number of Signals Passed At Danger (SPADs).

TRADING RESULTS

The Directors are satisfied with the performance of the company during the period. Turnover was £614.7m, which was an increase of 7% on the previous period (2009 £576.1m). Operating profit of £30.3m represented an increase of 26% on the previous period (2009 £24.1m).

Cumulative passenger revenue is up 9% year on year. This has delivered an extra £15.5m net of the revenue share agreement with DfT. Franchise receipts on a like for like basis have increased by £22m mainly to compensate for the additional services introduced in December 2008 as a result of the Leeds to Nottingham services and the revisions to the West Coast timetable.

Other revenue was down by £3m due to the high level of sales relating to the sub leasing of rolling stock to other operators in 2009.

The increase in revenue has been offset by changes in the following costs :- Network Rail variable charges have increased by £20m and train leasing costs has increased by £3m due to the increase in services and the number of vehicles leased. Staff costs have increased by £15m, in the year driven by an increase in staff numbers and the non-management salary increase of 3.2%.

Capital investment in the year amounted to £3.9m and included the installation of ticket barriers, staff accommodation refurbishment, and the implementation of various Information Services solutions.

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.

NORTHERN RAIL HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

RISKS AND UNCERTAINTIES

In common with most train operators the main competitor to our business is 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 91.63% for the year to 9th January 2010.

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. 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. Key factors considered by the directors also include the franchise end date, which runs until at least September 2011 and is likely to be extended beyond this date as explained in the business review.

Where possible, Northern will fix costs going forward to achieve certainty. This is achieved through the use of hedge instruments for diesel fuel and longer-term contracts for utilities.

RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES

The company made a profit after taxation of £21,172,000 (2009 £19,603,000).

The directors recommended a final dividend of £14,458,000 (2009 £5,550,000), which was paid on 29 December 2009, together with interim dividends of £3,700,000, which were paid on 9 April 2009, £4,700,000 paid on 29 June 2009 and £4,900,000 paid on 30 September 2009.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and up to the date of approval of these accounts were as follows:

Nicholas Brown	(resigned 31 December 2009)
Dominic Booth	
Christiaan Smulders	(resigned 4 March 2009)
Antoine Valk	
Hugh Fitzsimmons	(resigned 1 March 2010)
Alan Wilson	
Craig Nunn	(appointed 1 March 2010)
Richard Emmerink	(appointed 4 March 2009)
Tom Riall	(appointed 1 January 2010)

No directors had any beneficial interest in the issued share capital of the company during the year ended 9 January 2010.

EMPLOYEE INVOLVEMENT AND DISABLED EMPLOYEES

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

CHARITABLE CONTRIBUTIONS

During the year the company made charitable donations of £11,736 (2009 £1,275), principally relating to local charities serving the communities in which the company operates.

CREDITOR PAYMENT POLICY

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 50 days (2009 55 days).

NORTHERN RAIL HOLDINGS LIMITED

DIRECTORS' REPORT (continued)

FINANCIAL INSTRUMENTS

The group 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 group enters into forward contracts, currently on a rolling 12 month basis, to hedge a proportion of its exposures to fuel price and related foreign exchange movements.

AUDITORS

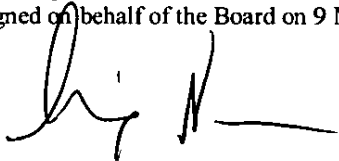
Each of the directors at the date of approval of this report confirms that

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

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

A resolution for the reappointment of Deloitte LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board on 9 March 2010

A handwritten signature in black ink, appearing to be 'Craig Nunn', with a horizontal line extending to the right.

Craig Nunn
Director

NORTHERN RAIL HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare 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 group and of the profit or loss of the group 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 group 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 HOLDINGS LIMITED

We have audited the financial statements of Northern Rail Holdings Limited for the period ended 9 January 2010 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses, the Group Cash Flow Statement and the related notes 1 to 28. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 9 January 2010 and of the group's 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 matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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.



Christopher Powell, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Leeds, UK

9 March 2010

NORTHERN RAIL HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT 53 weeks ended 9 January 2010

	Note	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
TURNOVER	2	614,694	576,102
Operating expenditure			
- Exceptional redundancy costs	3	(1,673)	(288)
- Other operating expenditure		(582,746)	(551,740)
Total operating expenditure	4	(584,419)	(552,028)
OPERATING PROFIT	4	30,275	24,074
Net finance (expense)/income	5	(347)	4,391
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		29,928	28,465
Tax on profit on ordinary activities	7	(8,756)	(8,862)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	20	21,172	19,603

All amounts relate to continuing operations

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Profit for the financial period		21,172	19,603
Actuarial gain/(loss) relating to pension scheme	22	1,697	(7,374)
UK deferred tax attributable to actuarial (gain)/loss		(478)	2,065
Total recognised gains and losses relating to the period		22,391	14,294

NORTHERN RAIL HOLDINGS LIMITED

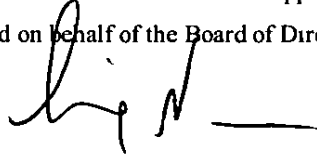
CONSOLIDATED BALANCE SHEET

As at 9 January 2010

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Intangible assets	9	5,457	8,483
Tangible assets	10	14,676	14,231
		<u>20,133</u>	<u>22,714</u>
CURRENT ASSETS			
Stocks	13	3,734	3,509
Debtors	14	28,807	40,509
Cash at bank and in hand		49,777	39,373
		<u>82,318</u>	<u>83,391</u>
CREDITORS: amounts falling due within one year	16	(97,437)	(90,463)
NET CURRENT LIABILITIES		<u>(15,119)</u>	<u>(7,072)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,014	15,642
CREDITORS: amounts falling due after one year	17	(3,881)	(6,175)
NET ASSETS EXCLUDING PENSION LIABILITY		<u>1,133</u>	<u>9,467</u>
PENSION LIABILITY	22	(54)	(3,021)
NET ASSETS INCLUDING PENSION LIABILITY		<u>1,079</u>	<u>6,446</u>
CAPITAL AND RESERVES			
Called up share capital	18	-	-
Profit and loss account	19	1,079	6,446
TOTAL SHAREHOLDERS' FUNDS	20	<u>1,079</u>	<u>6,446</u>

These financial statements were approved by the Board of Directors on 9 March 2010

Signed on behalf of the Board of Directors



Craig Nunn

Director

Company Registration number 4007719

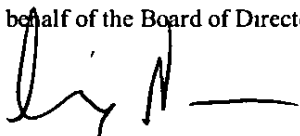
NORTHERN RAIL HOLDINGS LIMITED

COMPANY BALANCE SHEET As at 9 January 2010

	Note	2010 £	2009 £
FIXED ASSETS			
Investments	11	4	4
CREDITORS: amounts falling due within one year	16	(2)	(2)
NET CURRENT LIABILITIES		(2)	(2)
TOTAL ASSETS LESS CURRENT LIABILITIES		2	2
NET ASSETS		2	2
CAPITAL AND RESERVES			
Called up share capital	18	2	2
Profit and loss account	19	-	-
TOTAL SHAREHOLDERS' FUNDS		2	2

These financial statements were approved by the Board of Directors on 9 March 2010

Signed on behalf of the Board of Directors



Director

Company Registration number 4007719

NORTHERN RAIL HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT 53 weeks ended 9 January 2010

		53 weeks ended 9 January 2010	52 weeks ended 3 January 2009
	Note	£'000	£'000
Net cash inflow from operating activities	25	48,067	34,488
Returns on investments and servicing of finance			
Interest received		186	925
Interest paid		(331)	(316)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(145)	609
Taxation			
UK Corporation tax paid		(5,210)	(7,927)
Capital expenditure			
Purchase of tangible fixed assets		(3,934)	(4,096)
Net cash outflow for capital expenditure		(3,934)	(4,096)
Equity dividends paid		(27,758)	(19,399)
Net cash inflow before financing		11,020	3,675
Financing			
Repayment of loan		(616)	(651)
Net cash outflow from financing		(616)	(651)
Increase in cash	26	10,404	3,024

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below

Basis of accounting

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards. 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. 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. Key factors considered by the directors also include the franchise end date, which runs until at least September 2011 and is likely to be extended beyond this date as explained in the business review.

Where possible, Northern will fix costs going forward to achieve certainty. This is achieved through the use of hedge instruments for diesel fuel and longer-term contracts for utilities.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to the accounting reference date. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Turnover

The group 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 rail support from the Strategic Rail Authority / 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.

Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise, representing the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term and any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Franchise goodwill is capitalised and written off on a straight line basis over the life of the franchise. Franchise bid costs levied on the group are capitalised and amortised over the life of the franchise. Provision is made for any impairment.

Tangible fixed assets and depreciation

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.

Taxation

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

Deferred taxation is provided in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

A net deferred asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Leases

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

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

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

Pension costs

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis. The group'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 group will not be required to recover/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 group is expected to fund/able to recover, net of deferred tax. This intangible deficit 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 Consolidated 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 Consolidated 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

2. TURNOVER

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

Turnover is analysed as follows

	9 January 2010 £'000	3 January 2009 £'000
Passenger income	177,238	162,560
Grant	390,069	363,080
Other	47,387	50,462
	<u>614,694</u>	<u>576,102</u>

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

3. EXCEPTIONAL COSTS

Exceptional redundancy costs of £1,673,000 (2009 £288,000) were incurred by the group's trading entity, Northern Rail Limited, as a result of restructuring necessary when the Northern Rail Franchise was acquired

4. OPERATING PROFIT

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets	3,469	2,526
Amortisation of intangible fixed assets	3,026	3,028
Rental income receivable	(869)	(1,213)
Access and related charges payable to Network Rail	166,971	160,095
Operating lease rentals payable		
- Rolling stock	35,531	34,694
- Property leases	20,997	28,060
- Other	262	217
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	95	78
Total audit fees	95	78
Other services	33	13
Total non-audit fees	33	13
Analysis of operating expenditure in the period:		
Raw materials and consumables	34,386	40,098
Staff costs - Wages and salaries	151,380	137,117
- Social security costs	11,108	10,248
- Other pension costs	14,516	15,625
Other external charges	364,861	343,095
Depreciation and other amounts written off tangible and intangible fixed assets	6,495	5,554
Exceptional redundancy costs	1,673	288
	584,419	552,028

5. NET FINANCE (EXPENSE)/INCOME

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Interest payable and similar charges	(331)	(316)
Less interest receivable and similar income	184	927
Net (charge)/ return on pension scheme (see note 22)	(200)	3,780
	(347)	4,391
<i>Interest payable and similar charges</i>		
Bond costs	(331)	(316)
	(331)	(316)

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Directors' remuneration		
Total directors emoluments for the period (excluding pension)	-	-
Total directors pension contribution	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
	Number	Number
Number of directors who are members of a defined benefit scheme	-	-
	<u>-</u>	<u>-</u>

Antoine Valk and Dominic Booth were remunerated through Abellio Transport Holdings BV and Christiaan Smulders was remunerated through NS Groep

Nicholas Brown, Hugh Fitzsimmons, Craig Nunn, Tom Riall and Alan Wilson were remunerated through Serco Limited. It is not practicable to ascertain what proportion of their emoluments relates to the group

	Number	Number
Average number of persons employed (including directors)		
Operational	3,473	3,504
Engineering and maintenance	718	661
Administration and support	561	439
	<u>4,752</u>	<u>4,604</u>
	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Staff costs during the period (including directors)		
Wages and salaries	151,380	137,117
Social security costs	11,108	10,248
Pension costs	11,902	15,625
	<u>174,390</u>	<u>162,990</u>

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 53 Weeks ended 9 January 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
The tax charge comprises		
Current tax		
United Kingdom corporation tax	8,579	8,361
Adjustment in respect of prior periods	(117)	(261)
Total current tax	8,462	8,100
Deferred tax charge		
Origination and reversal of timing differences	(170)	317
Movement in pension provision	676	445
Adjustment in respect of prior periods	(212)	-
Total deferred tax charge	294	762
Total tax charge on profit on ordinary activities	8,756	8,862

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

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Profit on ordinary activities before tax	29,928	28,465
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 28.5%)	8,380	8,112
Effects of		
Expenses not deductible for tax purposes	929	1,040
Capital allowances in excess of depreciation	68	(155)
Movement in short term timing differences	(798)	(636)
Adjustment in respect of prior periods	(117)	(261)
Current tax charge for the period	8,462	8,100

8. DIVIDENDS

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Paid - £6.94 million per ordinary share (2009 £4.85 million per ordinary share)	27,758	19,399

The directors recommended a final dividend of £14,458,000 (2009 £5,500,000), which was paid on 29 December 2009, together with interim dividends of £3,700,000, which were paid on 9 April 2009, £4,700,000 paid on 29 June 2009 and £4,900,000 paid on 30 September 2009

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 53 Weeks ended 9 January 2010

9. INTANGIBLE FIXED ASSETS

Group	Franchise bid costs £'000	Franchise goodwill £'000	Total £'000
Cost			
At 4 January 2009 and 9 January 2010	3,712	17,181	20,893
Amortisation			
At 4 January 2009	2,237	10,173	12,410
Charge for the period	548	2,478	3,026
At 9 January 2010	2,785	12,651	15,436
Net book value			
At 9 January 2010	927	4,530	5,457
At 3 January 2009	1,475	7,008	8,483

10. TANGIBLE FIXED ASSETS

Group	Short leasehold buildings £'000	Plant and machinery £'000	Assets under construct- oin £'000	Total £'000
Cost				
At 4 January 2009	1,012	18,072	761	19,845
Additions	-	3,685	229	3,914
Transfer	-	744	(744)	-
At 9 January 2010	1,012	22,501	246	23,759
Accumulated depreciation				
At 4 January 2009	492	5,122	-	5,614
Charge for the period	111	3,358	-	3,469
At 9 January 2010	603	8,480	-	9,083
Net book value				
At 9 January 2010	409	14,021	246	14,676
At 3 January 2009	520	12,950	761	14,231

Assets under construction relate to various ongoing station and other capital improvement projects

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

11. INVESTMENTS IN SUBSIDIARY UNDERTAKING

Cost	£
Shares in subsidiary undertaking	
At 3 January 2009 and 9 January 2010	<u>4</u>

The parent company's wholly owned subsidiary undertaking, Northern Rail Limited, a company incorporated in England, operates passenger railway services

12. INVESTMENTS HELD AS FIXED ASSETS

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

	Number of shares
ATOC Limited (4p share)	1
Rail Staff Travel Limited (4p share)	1
Rail Settlement Plan Limited (4p share)	1
NRES Limited (£1 share)	<u>1</u>

ATOC Limited is the contracting arm of ATOC, the Association of Train Operating Companies Rail Settlement Plan Limited operates the income allocation and settlement routines on behalf of ATOC Rail Staff Travel Limited manages staff travel arrangements in the industry on behalf of ATOC NRES Limited provides rail related information to the public

13. STOCKS

	Group	
	2010	2009
	£'000	£'000
Raw materials and consumables	<u>3,734</u>	<u>3,509</u>

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

14. DEBTORS

	Group	
	2010	2009
	£'000	£'000
Trade debtors	13,720	18,658
Other debtors	5,610	8,887
Deferred taxation (see note 15)	57	-
Prepayments and accrued income	<u>9,420</u>	<u>12,964</u>
	<u>28,807</u>	<u>40,509</u>

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 53 Weeks ended 9 January 2010

15. DEFERRED TAXATION

The amounts of deferred tax liability recognised are as follows

	Group £'000
At 3 January 2009	(325)
Credit to the profit and loss account	382
	<hr/>
At 9 January 2010	57
	<hr/>

The analysis of the deferred tax liability is as follows

	2010 £'000	2009 £'000
Capital allowances in excess of depreciation	57	(305)
Short term timing differences	-	(20)
	<hr/>	<hr/>
	57	(325)
	<hr/>	<hr/>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2010 £'000	2009 £'000	Company 2010 £	2009 £
Trade creditors	24,252	38,812	-	-
Amounts owed to group undertakings	-	-	2	2
Corporation tax	6,883	3,668	-	-
Other creditors	4,602	12,444	-	-
Taxation and social security	6,950	6,311	-	-
Accruals and deferred income	54,150	28,303	-	-
Deferred tax (note 15)	-	325	-	-
Loan payable	600	600	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	97,437	90,463	2	2
	<hr/>	<hr/>	<hr/>	<hr/>

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2010 £'000	2009 £'000
Grants not yet credited to the profit and loss account	2,244	4,013
Other creditors	205	114
Loans payable	1,432	2,048
	<hr/>	<hr/>
	3,881	6,175
	<hr/>	<hr/>

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 53 Weeks ended 9 January 2010

18. CALLED UP SHARE CAPITAL

	2010 £	2009 £
Authorised.		
50 'A' ordinary shares of £1 each	50	50
50 'B' ordinary shares of £1 each	50	50
	<hr/>	<hr/>
Called up, allotted and unpaid:		
1 'A' ordinary shares of £1 each	1	1
1 'B' ordinary shares of £1 each	1	1
	<hr/>	<hr/>
	2	2
	<hr/>	<hr/>

'A' ordinary shares of £1 each and 'B' ordinary shares of £1 each carry equal voting rights and rank pari passu in all respects

19. RESERVES

	Group profit and loss account £'000	Company profit and loss account £
At 3 January 2009	6,446	-
Retained profit for the financial period	21,172	-
Actuarial gain relating to Pension Scheme	1,697	-
UK deferred tax attributable to actuarial gain	(478)	-
Dividend	(27,758)	-
	<hr/>	<hr/>
At 9 January 2010	1,079	-
	<hr/>	<hr/>

The profit for the financial period of the parent company was £21,172,000 (2009 £19,603,000). The company has taken advantage of Section 230 of the Companies Act 2006 not to present its own profit and loss account

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Profit for the financial period	21,172	19,603
Other recognised gains and losses (net)	1,219	(5,309)
Dividend	(27,758)	(19,399)
	<hr/>	<hr/>
Net decrease in shareholders' funds	(5,367)	(5,105)
Opening shareholders' funds	6,446	11,551
	<hr/>	<hr/>
Closing shareholders' funds	1,079	6,446
	<hr/>	<hr/>

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

21. CONTINGENT LIABILITIES

The group's trading entity, Northern Rail Limited, as the Northern franchise holder, 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 7 reporting periods after the end of the franchise.

The initial expiry date of the franchise is 18 September 2011. However, this can be extended subject to meeting certain performance criteria to 15 September 2013. The performance bond amount as at 9 January 2010 was £29,232,296 (2009 £29,232,296).

In addition, Northern Rail Limited, as the Northern franchise holder, has procured two season ticket bonds in favour of the Strategic Rail Authority. 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 9 January 2010 was £2,574,000 (2009 £2,214,000).

22. PENSION LIABILITY

The group's trading entity, Northern Rail Limited, 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 group'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 consolidated 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 group 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 group 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 31 December 2007 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.

Combined divisions

The following assumptions have been used for both divisions

	2010	2009	2008
Discount rate	5.70%	6.40%	5.80%
Rate of increase in salaries	4.00%	3.15%	4.20%
Rate of increase in deferred pensions	3.50%	2.65%	3.20%
Rate of increase in pensions in payment	3.50%	2.65%	3.20%
Inflation assumption	3.50%	2.65%	3.20%

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

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

22. PENSION LIABILITY (continued)

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

Eastern Division:

	Expected rate of return at 9 January 2010	9 January 2010 £'000	Expected rate of return at 3 January 2009	3 January 2009 £'000	Expected rate of return at 5 January 2008	5 January 2008 £'000
Equities	7.90%	152,243	7.35%	127,034	8.00%	158,690
Bonds	4.60%	21,258	5.13%	17,129	5.80%	24,640
Property	6.40%	17,935	5.85%	17,275	6.50%	22,100
Cash and other	0.50%	20,122	3.00%	18,662	5.00%	23,970
Total market value of assets		211,558		180,100		229,400
Present value of scheme liabilities		(319,065)		(210,677)		(243,265)
Deficit in the scheme		(107,507)		(30,577)		(13,865)
Members' share of deficit		43,003		12,231		5,546
Franchise adjustment		64,504		16,060		3,076
Group's share of deficit		-		(2,286)		(5,243)
Related deferred tax asset		-		640		1,468
Net pension liability		-		(1,646)		(3,775)

Western Division:

	Expected rate of return at 9 January 2010	9 January 2010 £'000	Expected rate of return at 3 January 2009	3 January 2009 £'000	Expected rate of return at 5 January 2008	5 January 2008 £'000
Equities	7.90%	131,318	7.35%	111,073	8.00%	140,070
Bonds	4.60%	18,172	5.13%	14,865	5.80%	21,770
Property	6.50%	15,937	5.85%	15,350	6.50%	19,640
Cash and other	0.50%	17,637	3.00%	16,168	5.00%	21,220
Total market value of assets		183,064		157,456		202,700
Present value of scheme liabilities		(251,592)		(167,542)		(191,775)
(Deficit)/surplus in the scheme		(68,528)		(10,086)		10,925
Members' share of deficit/(surplus)		27,411		4,034		(4,370)
Franchise adjustment		41,041		4,142		-
Group's share of (deficit)/asset		(76)		(1,910)		6,555
Related deferred tax asset/(liability)		22		535		(1,836)
Net pension (liability)/asset		(54)		(1,375)		4,719

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 53 Weeks ended 9 January 2010

22 PENSION LIABILITY (continued)

AMOUNTS INCLUDED WITHIN OPERATING PROFIT

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Combined divisions		
Current service cost	11,902	15,608
Total included within operating profit	<u>11,902</u>	<u>15,608</u>

AMOUNTS INCLUDED IN NET FINANCE INCOME

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Combined divisions		
Expected return on scheme assets	13,140	18,960
Interest cost on scheme liabilities	(14,640)	(15,360)
Interest on franchise adjustment	1,300	180
Net finance return	<u>(200)</u>	<u>3,780</u>

ANALYSIS OF AMOUNT RECOGNISED IN CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Combined divisions		
Actual return less expected return on assets	(22,769)	136,834
Gains and losses on change in assumptions	3,152	3,700
Experience gains and losses on liabilities	101,964	(116,212)
Experience gains and losses on franchise adjustment	(84,044)	(16,948)
Actuarial gain recognised	<u>(1,697)</u>	<u>7,374</u>

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

22. PENSION LIABILITY (continued)

HISTORY OF THE EXPERIENCE GAINS AND LOSSES RECOGNISED IN CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Combined divisions	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Difference between expected and actual returns on scheme assets	22,769	136,834	(1,060)	17,039	24,464
Percentage of scheme assets	6%	-41%	0.2%	4%	7%
Experience gains and losses on scheme liabilities	105,116	(112,512)	8,649	9,634	(32,373)
Percentage of scheme liabilities	18%	-33%	2%	2%	8%
Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment	82,337	24,322	7,589	26,673	(7,909)
Percentage of scheme liabilities	14%	7%	2%	6%	2%
Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment	(1,707)	7,374	3,333	6,437	13,698

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

22. PENSION LIABILITY (continued)

ANALYSIS OF THE MOVEMENT IN THE SCHEME DEFICIT DURING THE PERIOD

	2010 £'000	2009 £'000
Combined divisions		
Change in benefit obligation		
Benefit obligation at the beginning of the year	(378,219)	(435,040)
Current service cost	(19,222)	(25,328)
Interest cost	(24,400)	(25,600)
Actuarial gains	(159,796)	96,331
Benefits paid	10,980	11,418
	<u>(570,657)</u>	<u>(378,219)</u>
Change in plan assets		
Fair value of plan assets at the beginning of the year	337,556	432,100
Expected return on plan assets	21,900	31,600
Actuarial losses	22,779	(136,834)
Contributions	22,445	21,080
Additional contributions - brass matching	922	1,028
Benefits paid	(10,980)	(11,418)
	<u>394,622</u>	<u>337,556</u>
Funded status	<u>(176,035)</u>	<u>(40,663)</u>
Unrecognised net actuarial gains	70,414	16,265
Franchise adjustment	105,545	20,202
	<u>(76)</u>	<u>(4,196)</u>
Net amount recognised	22	1,175
Related deferred tax asset	<u>(54)</u>	<u>(3,021)</u>

Cumulative gains since the adoption of FRS17 amount to £17,084,000 (2009 £15,377,000)

23. OPERATING LEASE COMMITMENTS

On 4 February 2005, the company signed an agreement with Network Rail Infrastructure Ltd for access to the railway infrastructure. The agreement, which consists of fixed and variable charges, expires at the end of 2010, with a new contract being agreed during 2010. The variable charges cover track usage, traction, and are primarily depending on train miles run.

The company has contracts which commit it to lease rolling stock from Angel Trains Contracts Limited, West Yorkshire Passenger Transport Executive and Porterbrook Leasing Company Limited.

At 9 January 2010 the company was committed to making the following payments during the next year in respect of operating leases:

	Property £'000	Rolling stock £'000	Other £'000
Leases which expire			
Within two to five years	19,273	35,737	400
	<u>19,273</u>	<u>35,737</u>	<u>400</u>

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

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

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Expense recharges	1,466	2,031
Interest	152	148

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. At 9 January 2010, amounts due to Serco Group plc amounted to £157,000 (2009 £29,000)

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Expense recharge	150	148
Executive salaries	68	516
Interest	152	148

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 9 January 2010, amounts due to NV Nederlandse Spoorwegen amounted to £66,000 (2009 £nil)

25. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Operating profit	30,275	24,074
Depreciation of tangible fixed assets	3,469	2,526
Amortisation of intangible fixed assets	3,026	3,028
Increase in stock	(225)	(9)
Decrease/(increase) in debtors	7,397	(5,150)
Increase in creditors	6,739	7,826
Adjustment for pension funding	(2,614)	2,193
Net cash inflow from operating activities	48,067	34,488

NORTHERN RAIL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

53 Weeks ended 9 January 2010

26. ANALYSIS AND RECONCILIATION OF NET FUNDS

	At 3 January 2009 £'000	Cash flows £'000	Non-cash flows £'000	At 9 January 2010 £'000
Cash in hand, at bank	39,373	10,404	-	49,777
Debts due within one year	(600)	-	-	(600)
Debts due after one year	(2,048)	616	-	(1,432)
Net funds	36,725	11,020	-	47,745
			53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Increase in cash in the period			10,404	3,024
Net cash inflow from decrease in debt			616	651
Change in net funds resulting from cash flows			11,020	3,675
Net funds at 3 January 2009			36,725	33,049
Net funds at 9 January 2010			47,745	36,724

27. ULTIMATE CONTROLLING PARTIES

The ultimate controlling parties of Northern Rail Holdings 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 The Company Secretary at Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.

28. 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 forward contracts, currently on a rolling monthly basis, to hedge a proportion of its exposures to fuel price and related foreign exchange movements.

Two forward contracts exist between Northern Rail Limited and Calyon, an investment bank. The first forward contract is cash settled and runs from 1 January 2007 to 15 September 2011. The total volume for the contract is 124,166,400 litres, at a fixed rate of £0.2895 per litre for the term of the contract. Calyon pays a floating rate on the contract. The floating rate is calculated as the daily 0.2% NWE price in USD per tonne converted into litres and then into GBP at the daily spot rate. The second forward contract is cash settled and runs from 1 October 2009 to 30 September 2010. The total volume for the contract is 12,540,000 litres, at a fixed rate of £0.3380 per litre for the term of the contract. Calyon pays a floating rate on both these contracts. The floating rate is calculated as the daily 0.1% NWE price in USD per tonne converted into litres and then into GBP at the daily spot rate.

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 liability at 9 January 2010 was calculated to be £3,276,031 (2009 £655,665).