

Northern Rail Holdings Limited

Annual Report and Financial Statements

7 January 2017

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COMPANIES HOUSE

Officers and professional advisors

Directors

Dominic Booth

Julian Edwards

Guy Smith

Angelique Magielsse

John Michael Heron

Auditors

Ernst & Young LLP

100 Barbirolli Square

Manchester

M2 3EY

Bankers

National Westminster Bank

Staines Branch

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Solicitors

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Registered Office

Eversheds House

70 Great Bridgewater Street

Manchester

Lancashire

M1 5ES

Registered Number: 4007719

Strategic report

The directors present their Strategic report for the 52 weeks ended 7 January 2017.

Principal activities

Northern Rail Holdings Limited (the “group” or “Northern”) is a joint venture company owned by Serco Holdings Limited and Abellio Transport Holdings Limited. Northern Rail Holdings Limited is a holding company which owns 100% of the share capital of Northern Rail Limited, a previously trading subsidiary company.

The principal activity of the group was the operation of passenger railway services in the North of England under a Franchise agreement awarded by the Department for Transport. These activities ceased on 31st March 2016.

Business review and future outlook

The Company was set up to operate a rail franchise, which ceased on 31 March 2016. The Company does not operate the replacement franchise, which commenced on 1 April 2016. The Company therefore ceased to trade as a train operating company from 1 April 2016, but the Company has responsibility for the subsequent wind down of the recently ended franchise, including the settlement of receivables and payables relating to the previous operation of the franchise. This may take some time to complete. In accordance with the requirements of IAS 1: Presentation and Disclosure, these financial statements are prepared on a basis other than going concern to reflect the fact that trading has ceased. Nevertheless, assets continue to be carried at their recoverable amount which reflects the expected amounts to be recovered on settlement as appropriate. In addition, assets and liabilities are classified as current or non-current in accordance with the contractual terms of those balances and the anticipated timing of settlement.

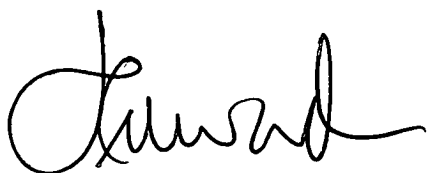
Operating profit for the 52 week period to 7 January 2017 was £18.7m (53 weeks ended 9 January 2016: £17.0m).

Passenger revenues of £58.7m for the initial 3 operating months to 31 March 2016 were in line with equivalent prior period revenues (3 months to 31 March 2015: £59.0m).

Principal risks and uncertainties

The group’s principle risks and uncertainties were significantly reduced after the transfer of significant operating assets and liabilities to Arriva Rail North Ltd on 31st March 2016. The group remains liable for events up to that date. The group’s future cash flows are based upon settling existing debts and liabilities, which are not subject to any outside market or business influences. At the balance sheet date, the group’s bank balance is in excess of all of the company’s outstanding liabilities.

By order of the Board



Julian Edwards
Director

Eversheds House
70 Great Bridgewater Street
Manchester
Lancashire
M1 5ES

Date: 26 September 2017

Registered Number: 4007719

Directors' report

The directors present their annual report and audited financial statements for the 52 weeks ended 7 January 2017.

Results and dividends

The profit for the period after taxation amounted to £14.7m (53 weeks ended 9 January 2016: profit of £13.5m).

The directors recommended a final dividend of £2.0m, which was paid on 14 December 2016, together with interim dividends of £8.0m and £10.0m which were paid on 24 March 2016 and 30 September 2016 respectively. The total dividends for the period ended 9 January 2016 totalled £11.8m. Post year-end, an interim dividend of £1.0m was recommended by the directors on 19 June 2017. This was subsequently paid on 21 June 2017.

Directors

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

Dominic Booth

David Stretch (Resigned 31 December 2016)

Julian Edwards

Gary Shilston (Resigned 31 March 2017)

Guy Smith

David Sanderse (Resigned 18 October 2016)

Angelique Magielse (Appointed 7 December 2016)

John Michael Heron (Appointed 31 March 2017)

Going Concern

The Company was set up to operate a rail franchise, which ceased on 31 March 2016. The Company does not operate the replacement franchise, which commenced on 1 April 2016. The Company therefore ceased to trade as a train operating company from 1 April 2016, but the Company has responsibility for the subsequent wind down of the recently ended franchise, including the settlement of receivables and payables relating to the previous operation of the franchise. This may take some time to complete. In accordance with the requirements of IAS 1: Presentation and Disclosure, these financial statements are prepared on a basis other than going concern to reflect the fact that trading has ceased. Nevertheless, assets continue to be carried at their recoverable amount which reflects the expected amounts to be recovered on settlement as appropriate. In addition, assets and liabilities are classified as current or non-current in accordance with the contractual terms of those balances and the anticipated timing of settlement.

Political contributions

The group made no political donations during the period (period ended 9 January 2016: nil).

Directors' insurance

During the year the company had in force an indemnity provision in favour of one or more directors of Northern Rail Holdings Limited against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving the directors' report.

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.

Directors' report (continued)

Financial instruments

The company's principle financial assets are bank balances, together with trade and other debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant credit risk, with exposure mainly on rail industry partners.

The company's principle financial liabilities relate to other creditors, accruals and provisions.

Prior to 31 March 2016, the group operated passenger railway services in the UK and, as such, was exposed to movements in fuel prices and related exchange rates. To protect against price fluctuation, the group entered into forward contracts to hedge a proportion of its exposures to fuel price and related foreign exchange movements. No forward contracts existed at the end of the period.

Disclosure of information to the auditor

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.

Auditor

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

By order of the Board



Julian Edwards
Director

Eversheds House
70 Great Bridgewater Street
Manchester
Lancashire
M1 5ES

Date: 26 September 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report, the Strategic 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 the company 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 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Northern Rail Holdings Limited

We have audited the financial statements of Northern Rail Holdings Limited for the period ended 7 January 2017 which comprise the Group statement of comprehensive income, the Group and Company balance sheets, the Group and Company statements of changes in equity, the Group cash flow statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland'. As disclosed in note 1, the financial statements have not been prepared on a going concern basis.

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 Statement of directors' responsibilities set out on page 5, 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 report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 7 January 2017 and of the group's profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Ireland'; 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

Independent auditor's report (continued)

to the members of Northern Rail Holdings Limited

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic report or Directors' report.

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 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.



Jennifer Hazlehurst (Senior Statutory Auditor):
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Manchester

Date: 28/9/17

Group statement of comprehensive income

for the period ended 7 January 2017

		52 weeks ended 7 January 2017 £000	53 weeks ended 9 January 2016 £000
	Notes		
Turnover	2	134,953	564,119
Operating expenditure	3	(116,248)	(547,111)
Operating profit		18,705	17,008
Other interest receivable and similar income	5	145	429
Interest payable and similar charges	6	(403)	(479)
Profit on ordinary activities before taxation		18,447	16,958
Tax on profit on ordinary activities	7	(3,762)	(3,477)
Profit for the financial period		14,685	13,481
Other comprehensive income			
Re-measurement of the net defined benefit liability	20	336	7,212
Effective portion of changes in fair value of cash flow hedges		-	(859)
Net change in fair value of cash flow hedges recycled to profit or loss		1,239	7,722
Tax on other comprehensive income		(325)	(2,816)
Other comprehensive income for the year, net of income tax		1,250	11,259
Total comprehensive income for the year		15,935	24,740


All amounts relate to discontinued operations.

Group balance sheet

at 7 January 2017

		7 January 2017	9 January 2016
	Notes	£000	£000
Fixed assets			
<i>Intangible assets</i>			
Goodwill	9	-	77
Other intangibles	9	-	103
		-	180
Tangible assets	10	-	7,744
Investments	11	-	-
		-	7,924
Current assets			
Stocks	12	-	3,514
Debtors (including £nil (9 January 2016 :£1,263,000) due after more than one year)	13	924	45,263
Cash at bank and in hand		14,494	44,861
		15,418	93,638
Creditors: amounts falling due within one year	14	(10,478)	(84,769)
Net current assets		4,940	8,869
Total assets less current liabilities		4,940	16,793
Creditors: amounts falling due after more than one year	15	-	(1,307)
Provisions for liabilities			
Other provisions	19	-	(5,805)
Pensions obligations	20	-	(676)
Net assets		4,940	9,005
Capital and reserves			
Called up share capital	21	-	-
Cash flow hedging reserve		-	(991)
Profit and loss account		4,940	9,996
Shareholders' funds		4,940	9,005

Approved by the directors and authorised for issue on 26 September 2017 and signed on their behalf by:



Julian Edwards

Director

Company balance sheet

at 7 January 2017

		7 January 2017	9 January 2016
	Notes	£	£
Fixed assets			
Investments	11	4	4
Creditors: amounts falling due within one year	14	(2)	(2)
Total assets less current liabilities		<u>2</u>	<u>2</u>
Capital and reserves			
Called up share capital	21	2	2
Profit and loss account		-	-
Shareholders' funds		<u>2</u>	<u>2</u>

Approved by the directors and authorised for issue on 26 September 2017 and signed on their behalf by:



Julian Edwards
Director

Group statement of changes in equity

	<i>Called up share capital £000</i>	<i>Cash flow hedging reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total equity £000</i>
Balance at 4 January 2015	-	(6,481)	2,546	(3,935)
Profit for the year	-	-	13,481	13,481
Remeasurements of the net defined benefit liability	-	-	7,212	7,212
Effective portion of changes in fair value of cash flow hedges	-	(859)	-	(859)
Net change in fair value of cash flow hedges recycled to profit and loss	-	7,722	-	7,722
Tax on other comprehensive income	-	(1,373)	(1,443)	(2,816)
Total comprehensive income for the year	-	5,489	19,251	24,740
Dividends	-	-	(11,800)	(11,800)
Balance at 9 January 2016	-	(991)	9,996	9,005

	<i>Called up share capital £000</i>	<i>Cash flow hedging reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total equity £000</i>
Balance at 9 January 2016	-	(991)	9,996	9,005
Profit for the year	-	-	14,685	14,685
Remeasurements of the net defined benefit liability	-	-	336	336
Net change in fair value of cash flow hedges recycled to profit and loss	-	1,239	-	1,239
Movement on deferred tax relating to defined benefit pension scheme	-	-	(77)	(77)
Movement on deferred tax relating to cash flow hedges	-	(248)	-	(248)
Total comprehensive income for the year	-	991	14,944	15,935
Dividends	-	-	(20,000)	(20,000)
Balance at 7 January 2017	-	-	4,940	4,940

Company statement of changes in equity

	<i>Called up share capital</i>	<i>Profit and loss account</i>	<i>Total equity</i>
	£	£	£
Balance at 4 January 2015	2	-	2
Profit for the year	-	11,800,000	11,800,000
Total comprehensive income for the period	-	11,800,000	11,800,000
Dividends	-	(11,800,000)	(11,800,000)
Balance at 9 January 2016	2	-	2

	<i>Called up share capital</i>	<i>Profit and loss account</i>	<i>Total equity</i>
	£	£	£
Balance at 9 January 2016	2	-	2
Profit for the year	-	20,000,000	20,000,000
Total comprehensive income for the period	-	20,000,000	20,000,000
Dividends	-	(20,000,000)	(20,000,000)
Balance at 7 January 2017	2	-	2

Group cash flow statement

for the period ended 7 January 2017

	52 weeks ended 7 January 2017 £000	53 weeks ended 9 January 2016 £000
Cash flows from operating activities		
Profit for the period	14,685	13,481
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment	1,743	4,623
Profit on disposal of franchise	(570)	-
Provisions (released)/made during the period	(5,805)	5,805
Interest receivable and similar income	(145)	(429)
Interest payable and similar charges	403	479
Taxation	3,762	3,477
	14,073	27,436
Decrease/(increase) in trade and other debtors	42,120	(7,676)
(Increase)/decrease in stocks	(64)	69
(Decrease)/increase in trade and other creditors	(59,488)	8,452
Adjustment in respect of defined benefit liability	(400)	4,653
	(3,759)	32,934
Dividends paid	(20,000)	(11,800)
Interest paid	(318)	(364)
UK corporation tax paid	(3,590)	(4,951)
Net cash (outflow)/inflow from operating activities	(27,667)	15,819
Cash flows from investing activities		
Interest received	145	219
Disposal of franchise	(437)	-
Acquisition of tangible fixed assets	(759)	(4,268)
Acquisition of other intangible assets	-	-
Net cash outflow from investing activities	(1,051)	(4,049)
Cash flows from financing activities		
Hire purchase interest paid	(25)	(115)
Payment of hire purchase liabilities	(1,625)	(297)
Net cash outflow from financing activities	(1,650)	(412)
Net (decrease)/increase in cash and cash equivalents in the period	(30,367)	11,358
Cash and cash equivalents at beginning of period	44,861	33,503
Cash and cash equivalents at end of period	14,494	44,861

Notes to the financial statements

at 7 January 2017

1. Accounting policies

Northern Rail Holdings Limited (the “group”) is a company limited by shares and incorporated and domiciled in the UK. The company’s registered office is Eversheds House, 70 Great Bridgewater Street, Manchester, Lancashire, M1 5ES.

These group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the group financial statements have been rounded to the nearest £1,000. All amounts in the company financial statements have been rounded to the nearest £1.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- No separate parent company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included; and,
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the group and parent company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

1.1 Basis of preparation

The financial statements are prepared on the historical cost basis. The financial statements are prepared in sterling which is the functional currency of the group and rounded to the nearest £000.

1.2 Going concern

The Company was set up to operate a rail franchise, which ceased on 31 March 2016. The Company does not operate the replacement franchise, which commenced on 1 April 2016. The Company therefore ceased to trade as a train operating company from 1 April 2016, but the Company has responsibility for the subsequent wind down of the recently ended franchise, including the settlement of receivables and payables relating to the previous operation of the franchise. This can take some time to complete. In accordance with the requirements of IAS 1: Presentation and Disclosure, these financial statements are prepared on a basis other than going concern to reflect the fact that trading has ceased. Nevertheless, assets continue to be carried at their recoverable amount which reflects the expected amounts to be recovered on settlement as appropriate. In addition, assets and liabilities are classified as current or non-current in accordance with the contractual terms of those balances and the anticipated timing of settlement.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the parent company and its subsidiary undertakings made up to 7 January 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the parent company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the group takes into consideration potential voting rights that are currently exercisable.

Notes to the financial statements

at 7 January 2017

1. Accounting policies (continued)

1.3 Basis of consolidation (continued)

Under Section 408 of the Companies Act 2006 the parent company is exempt from the requirement to present its own statement of comprehensive income.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

1.4 Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- Where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

1.5 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes to the financial statements

at 7 January 2017

1. Accounting policies (continued)

1.6 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- Investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- Hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged to the profit and loss account on a straight-line basis over the franchise period.

Where the remaining franchise period is not deemed to be an appropriate useful life, the following useful lives are adopted:

Leasehold buildings:	Life of the lease
Plant and Equipment:	3 – 10 years

1.8 Intangible assets and goodwill

Franchise goodwill arose on transition of the 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 written off on a straight line basis over the life of the franchise. It was stated at cost less any accumulated amortisation and accumulated impairment losses.

Notes to the financial statements

at 7 January 2017

1. Accounting policies (continued)

1.8 Intangible assets and goodwill (continued)

Franchise bid costs are expensed as incurred, except where preferred bidder status was reached. All directly attributable and incremental costs after achieving preferred bidder status were recognised as an intangible asset and amortised on a straight-line basis over the life of the franchise. They were stated at cost less accumulated amortisation and less accumulated impairment losses.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1.9 Government grants

Government grants relating to tangible fixed assets are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate.

1.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and included expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their end location and condition.

1.11 Short Term Debtors and Creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any impairment losses are recognised in the income statement in other operating expenses. Book value is considered to represent fair value.

1.12 Employee benefits

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 reflected only that portion of the deficit that is expected to be funded over the franchise term. A 'franchise adjustment' was made to the deficit on this basis. The franchise adjustment was the projected deficit at the end of the franchise term which the group will not be required to fund, discounted back to present value.

The total net liability in respect of defined benefit plans was calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit was discounted to determine its present value. The fair value of any plan assets was deducted. The group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability/(asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the group's liability. A valuation is performed by a qualified actuary using the projected unit credit method.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Re-measurement of the net defined benefit liability/(asset) is recognised in other comprehensive income in the period in which it occurs.

Notes to the financial statements

at 7 January 2017

1. Accounting policies (continued)

1.13 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.14 Turnover

The group recognises turnover from three sources. Passenger income represents agreed amounts attributed to the group 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. Other income arises from the provision of ancillary services to external parties. All incomes are recognised in the profit and loss account in the period to which they relate.

1.15 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable and finance leases recognised in profit or loss using the effective interest method.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

1.16 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Notes to the financial statements

at 7 January 2017

1. Accounting policies (continued)

1.16 Taxation (continued)

The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.17 Cash flow hedging reserve

The hedging reserve comprised the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred.

Notes to the financial statements

at 7 January 2017

2. Turnover

All turnover originates in the United Kingdom and derives from the provision of railway services.

Turnover is analysed as follows:

	<i>52 weeks ended 7 January 2017 £000</i>	<i>53 weeks ended 9 January 2016 £000</i>
Passenger income	58,683	257,972
Grant	61,380	252,349
Other	14,890	53,798
	<u>134,953</u>	<u>564,119</u>

3. Expenses and auditor's remuneration

Included in the profit on ordinary activities before taxation are the following:

	<i>52 weeks ended 7 January 2017 £000</i>	<i>53 weeks ended 9 January 2016 £000</i>
Depreciation of tangible fixed assets – owned	1,563	3,566
Depreciation of tangible fixed assets – held under hire purchase	-	275
Amortisation of intangible fixed assets and goodwill	180	782
Gain on disposal of franchise	(570)	-
Rental income receivable	(372)	(1,107)
Access and related charges payable to Network Rail	9,130	41,169
Operating lease rentals payable – rolling stock	18,760	81,245
– property leases	4,979	21,642
– other	160	710

The analysis of auditor's remuneration is as follows:

Fees payable to the group's auditor for the audit of the group financial statements

Other services

75	103
<u>-</u>	<u>7</u>

Analysis of operating expenditure in the period:

Raw materials and consumables	7,799	59,135
Staff costs including directors – wages and salaries	47,982	202,780
– social security costs	3,860	16,255
– other pension costs	5,611	24,072
Other external charges	49,054	238,865
Depreciation and amortisation of tangible and intangible fixed assets	1,743	4,623
Restructuring costs	199	1,381
	<u>116,248</u>	<u>547,111</u>

Notes to the financial statements

at 7 January 2017

3. Expenses and auditor's remuneration (continued)

As part of the franchise handover at 31 March 2016, a number of assets and liabilities were transferred to Arriva Group. An analysis of the amounts involved is shown as follows:

	£000
Cash transferred by Northern Rail Limited	(437)
<i>Balance sheet items disposed:</i>	
Stock	3,578
Debtors	395
Creditors	(11,919)
Tangible Fixed Assets	6,939
Net liabilities disposed	(1,007)
Gain on disposal	570

Notes to the financial statements

at 7 January 2017

4. Staff numbers and costs

There were no employees at the year ended 7 January 2017. The average monthly number of employees, including directors, during the initial operating period to 31 March 2016, analysed by category, was made up as follows:

	<i>No.</i>	<i>No.</i>
Operational	3,365	3,833
Engineering and maintenance	1,042	902
Administration and support	786	370
	<u>5,193</u>	<u>5,105</u>

The aggregate payroll costs of these persons were as follows:

	<i>52 weeks ended 7 January 2017 £000</i>	<i>53 weeks ended 9 January 2016 £000</i>
Wages and salaries	47,982	202,780
Social security costs	3,860	16,255
Pension costs	5,611	24,072
	<u>57,453</u>	<u>243,107</u>

None of the Directors were members of the defined benefit pension scheme nor were they remunerated through Northern Rail Holdings Limited.

Dominic Booth and Julian Edwards were remunerated through Abellio Transport Holdings Limited.

David Sanderse and Angelique Magielse were remunerated through Abellio Transport Holding BV.

David Stretch, Gary Shilston and Guy Smith were remunerated through Serco Limited.

5. Other interest receivable and similar income

	<i>52 weeks ended 7 January 2017 £000</i>	<i>53 weeks ended 9 January 2016 £000</i>
Interest receivable on financial assets at amortised cost	145	219
Net interest income on defined benefit plan assets (note 20)	-	210
	<u>145</u>	<u>429</u>

Notes to the financial statements

at 7 January 2017

6. Interest payable and similar charges

	52 weeks ended 7 January 2017 £000	53 weeks ended 9 January 2016 £000
Interest payable on bonds	318	355
Interest payable on hire purchase agreements	25	115
Net interest payable on defined benefit plan assets (note 20)	60	-
Other interest payable	-	9
	<u>403</u>	<u>479</u>

7. Tax

(a) Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	52 weeks ended 7 January 2017 £000	53 weeks ended 9 January 2016 £000
Current tax:		
UK corporation tax on income for the period	2,288	4,678
Adjustment in respect of prior periods	(132)	(82)
Total current tax	<u>2,156</u>	<u>4,596</u>
Deferred tax:		
Origination and reversal of timing differences	1,548	(209)
Movement in defined benefit liability	135	554
Movement in fair value of derivatives	248	1,373
Adjustment in respect of prior periods	-	(21)
Total deferred tax	<u>1,931</u>	<u>1,697</u>
Total tax	<u>4,087</u>	<u>6,293</u>

	52 weeks ended 7 January 2017			53 weeks ended 9 January 2016		
	Current tax £000	Deferred tax £000	Total tax £000	Current tax £000	Deferred tax £000	Total tax £000
Recognised in profit and loss account	2,156	1,606	3,762	4,596	(1,119)	3,477
Recognised in other comprehensive income	-	325	325	-	2,816	2,816
Total tax	<u>2,156</u>	<u>1,931</u>	<u>4,087</u>	<u>4,596</u>	<u>1,697</u>	<u>6,293</u>

Notes to the financial statements

at 7 January 2017

7. Tax (continued)

(b) Factors affecting total tax charge

	<i>52 weeks ended 7 January 2017 £000</i>	<i>53 weeks ended 9 January 2016 £000</i>
Profit for the period	14,685	13,481
Total tax expense	<u>3,762</u>	<u>3,477</u>
Profit before taxation	18,447	16,958
 Tax charge using the standard rate of corporation tax in the UK of 20.0% (53 weeks ended 9 January 2016: 20.235%)	 3,690	 3,431
 <i>Effects of:</i>		
Fixed asset differences	65	-
Non-deductible expenses	128	137
Other	11	12
Adjustment in respect of prior periods	<u>(132)</u>	<u>(103)</u>
Total tax expense included in profit and loss	<u>3,762</u>	<u>3,477</u>

(c) Factors that may affect future tax charges

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015.

8. Dividends

	<i>52 weeks ended 7 January 2017 £000</i>	<i>53 weeks ended 9 January 2016 £000</i>
Paid – £5m per ordinary share (53 weeks ended 9 January 2016: £2.95m per ordinary share)	<u>20,000</u>	<u>11,800</u>

The directors recommended a final dividend of £2,000,000, which was paid on 14 December 2016, together with interim dividends of £8,000,000 and £10,000,000 which were paid on 24 March 2016 and 30 September 2016 respectively. The total dividends for the period ended 9 January 2016 totalled £11,800,000.

Post year-end, an interim dividend of £1,000,000 was recommended by the directors on 19 June 2017. This was subsequently paid on 21 June 2017.

Notes to the financial statements

at 7 January 2017

9. Intangible assets and goodwill

	<i>Franchise bid costs</i> £000	<i>Franchise goodwill</i> £000	<i>Total</i> £000
Cost:			
At 9 January 2016	4,677	17,181	21,858
Disposal	(4,677)	(17,181)	(21,858)
At 7 January 2017	-	-	-
Amortisation:			
At 9 January 2016	4,574	17,104	21,678
Charge for the period	103	77	180
Disposal	(4,677)	(17,181)	(21,858)
At 7 January 2017	-	-	-
Net book value:			
At 7 January 2017	-	-	-
At 9 January 2016	103	77	180

Amortisation is recognised within operating expenditure in the income statement.

10. Tangible fixed assets

	<i>Short leasehold buildings</i> £000	<i>Plant and machinery</i> £000	<i>Assets under construction</i> £000	<i>Total</i> £000
Cost:				
At 9 January 2016	1,045	39,232	143	40,420
Additions	-	-	759	759
Transfer	-	483	(483)	-
Disposals	(1,045)	(39,715)	(419)	(41,179)
At 7 January 2017	-	-	-	-
Depreciation:				
At 9 January 2016	1,038	31,638	-	32,676
Charge for the period	8	1,555	-	1,563
Disposals	(1,046)	(33,193)	-	(34,239)
At 7 January 2017	-	-	-	-
Net book value:				
At 7 January 2017	-	-	-	-
At 9 January 2016	7	7,594	143	7,744

Notes to the financial statements

at 7 January 2017

11. Fixed asset investments

<i>Company</i>	<i>Subsidiary undertakings £</i>
At 9 January 2016 and 7 January 2017	<u>4</u>

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

Group

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

<i>Company name</i>	<i>Capital</i>	<i>Proportion held</i>	<i>Activities</i>
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 Limited	£1.00	5.30%	Provides rail related information to the public
Greater Manchester Travel Card Limited	£1.00	4.00%	Manages multimodal travel within the industry on behalf of PTE's
Network Ticketing Limited	£1.00	1.00%	Manages multimodal travel within the industry on behalf of PTE's
West Yorkshire Ticketing Company Limited	£55.00	25.10%	Manages multimodal travel within the industry on behalf of PTE's

12. Stocks

	<i>Group</i>	
	<i>7 January 2017 £000</i>	<i>9 January 2016 £000</i>
Raw materials and consumables	-	<u>3,514</u>

Notes to the financial statements

at 7 January 2017

13. Debtors

	<i>Group</i>	
	<i>7 January 2017 £000</i>	<i>9 January 2016 £000</i>
Trade debtors	424	27,534
Other debtors	394	4,379
Amounts due from related parties (note 25)	-	849
Deferred tax assets (note 18)	-	1,931
Other taxes and social security	106	-
Prepayments and accrued income	-	10,570
	<u>924</u>	<u>45,263</u>

14. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>7 January 2017 £000</i>	<i>9 January 2016 £000</i>	<i>7 January 2017 £</i>	<i>9 January 2016 £</i>
Obligations under hire purchase agreement	-	321	-	-
Trade creditors	1,503	19,621	-	-
Amounts due to related parties (note 25)	430	2,035	-	-
Corporation tax	633	2,067	-	-
Other taxes and social security	-	4,603	-	-
Other creditors	1,010	13,117	2	2
Accruals and deferred income	6,902	41,766	-	-
Other financial liabilities (note 17)	-	1,239	-	-
	<u>10,478</u>	<u>84,769</u>	<u>2</u>	<u>2</u>

Notes to the financial statements

at 7 January 2017

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

	<i>Group</i>	
	<i>7 January</i>	<i>9 January</i>
	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Obligations under hire purchase agreement	-	1,304
Other creditors	-	3
	-	1,307

16. Obligations under hire purchase agreement

	<i>Group</i>	
	<i>7 January</i>	<i>9 January</i>
	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Amounts payable under hire purchase agreements:		
Within one year	-	412
In the second to fifth years inclusive	-	1,442
After five years	-	-
	-	1,854
Less: future finance charges	-	(229)
Present value of lease obligations	-	1,625

The hire purchase agreement was on a fixed repayment basis and was transferred to the new franchisee.

17. Other financial liabilities

	<i>Group</i>	
	<i>7 January</i>	<i>9 January</i>
	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Amounts falling due within one year		
Financial liabilities held for trading (including all derivatives)	-	1,239
	-	1,239

Notes to the financial statements

at 7 January 2017

18. Deferred tax assets and liabilities

Deferred tax assets were attributable to the following:

	<i>Group</i>	
	<i>7 January</i>	<i>9 January</i>
	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Depreciation in excess of capital allowances	-	1,263
Cash flow hedges	-	285
Employee benefits	-	135
Other	-	248
Tax assets	-	1,931

Movement in deferred tax assets were attributable to the following:

	<i>£000</i>
As at 9 January 2016	1,931
Deferred tax charge in Profit and Loss account	(1,606)
Debited to Other Comprehensive Income	(325)
As at 7 January 2017	-

19. Provisions

	<i>Group</i>	
	<i>7 January</i>	<i>9 January</i>
	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Balance at beginning of period	5,805	-
Provisions made during the period	-	5,805
Provisions paid during the period	(5,805)	-
Balance at end of period	-	5,805

The provisions were in respect of dilapidation costs associated with various leases that which expired at the end of the franchise period (1 April 2016).

Notes to the financial statements

at 7 January 2017

20. Pension obligations

The group's trading entity, Northern Rail Limited, operated two sections of the Railways Pension Scheme ("the RPS"). This provided benefits for employees based on final pensionable pay. The members were 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 was to pay contributions as agreed with the scheme actuary and trustees over the franchise term.

The deficit reflected in the balance sheet reflected only that portion of the deficit that was expected to be funded over the franchise term. A 'franchise adjustment' was made to the deficit on this basis. The franchise adjustment was the projected deficit at the end of the franchise term which the company would not have been required to fund.

The valuation used was based on the most recent actuarial valuations at 31 December 2013 and updated by Mercer Human Resources in order to assess the liabilities of the schemes at subsequent balance sheet dates.

The information disclosed below is in respect of the whole of the plans for which the group was legally responsible.

Net defined benefit liability

	<i>7 January 2017 £000</i>	<i>9 January 2016 £000</i>
Combined divisions		
Total market value of plan assets	-	692,069
Defined benefit obligation	-	(915,543)
Deficit in the scheme	-	(223,474)
Members' share of deficit	-	89,390
Franchise adjustment	-	133,408
Net defined benefit liability	-	(676)

	<i>7 January 2017 £000</i>	<i>9 January 2016 £000</i>
Eastern division		
Total market value of plan assets	-	374,707
Defined benefit obligation	-	(515,156)
Deficit in the scheme	-	(140,449)
Members' share of deficit	-	56,180
Franchise adjustment	-	83,821
Net defined benefit liability	-	(448)

Notes to the financial statements

at 7 January 2017

20. Pension obligations (continued)

	7 January 2017 £000	9 January 2016 £000
Western division		
Total market value of plan assets	-	317,362
Defined benefit obligation	-	(400,387)
Deficit in the scheme	-	(83,025)
Members' share of deficit	-	33,210
Franchise adjustment	-	49,587
Net defined benefit liability	-	(228)
<i>Movements in present value of defined benefit obligation</i>		
Combined divisions	7 January 2017 £000	9 January 2016 £000
Benefit obligation at beginning of period	(915,543)	(874,386)
Current service cost	(8,738)	(38,068)
Past service cost	-	(22)
Interest expense	(8,100)	(33,500)
Actuarial gains/(losses)	(38,029)	11,281
Benefits paid	3,501	19,152
Transferred to new franchisee	966,909	-
Benefit obligation at end of period	-	(915,543)
<i>Movements in fair value of plan assets</i>		
Combined divisions	7 January 2017 £000	9 January 2016 £000
Fair value of plan assets at beginning of period	692,069	640,473
Interest income	6,066	25,000
Return on plan assets less interest income	27,719	15,781
Administrative expenses paid from plan assets	(400)	(1,570)
Contributions by employer	5,952	19,419
Contributions by members	3,843	12,118
Benefits paid	(3,501)	(19,152)
Transferred to new franchisee	(731,748)	-
Fair value of plan assets at end of period	-	692,069

Notes to the financial statements

at 7 January 2017

20. Pension obligations (continued)

Expense recognised in the profit and loss account

	52 weeks ended 7 January 2017 £000	53 weeks ended 9 January 2016 £000
Combined divisions		
Current service cost	5,311	23,108
Past service cost	-	22
Net interest on net defined benefit liability	60	(210)
Administrative expenses	240	942
Total expense recognised in operating profit	<u>5,611</u>	<u>23,862</u>

Re-measurements recognised in other comprehensive income

	52 weeks ended 7 January 2017 £000	53 weeks ended 9 January 2016 £000
Combined divisions		
Return on plan assets less interest income	27,719	15,781
Actuarial gains/(losses)	(38,029)	11,281
Losses from change in member's share	4,118	(11,046)
(Losses)/gains on franchise adjustment	6,528	(8,804)
Total re-measurements in other comprehensive income	<u>336</u>	<u>7,212</u>

Fair value of the plan assets

	7 January 2017 Fair value £000	9 January 2016 Fair value £000
Combined divisions		
Cash	-	74,858
Equity instruments	-	436,494
Debt instruments	-	45,162
Property	-	85,082
Other	-	50,472
Fair value of plan assets at end of period	<u>-</u>	<u>692,068</u>

Notes to the financial statements

at 7 January 2017

20. Pension obligations (continued)

Actuarial assumptions

	7 January 2017	9 January 2016
Discount rate	3.60%	3.90%
Rate of increase in salaries	2.90%	3.00%
Rate of increase in deferred pensions	1.90%	2.00%
Rate of increase in pensions in payment	1.90%	2.00%
Inflation assumption (CPI)	1.90%	2.00%
Inflation assumption (RPI)	2.90%	3.00%

21. Share capital

	7 January 2017		9 January 2016	
Allotted, called up and fully paid:	No.	£	No.	£
'A' ordinary shares of £1 each	1	1	1	1
'B' ordinary shares of £1 each	1	1	1	1
Shares classified in shareholders' funds		<u>2</u>		<u>2</u>

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

22. Financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group	
	7 January 2017	9 January 2016
	£000	£000
Assets measured at amortised cost – other debtors	15,312	77,623
Liabilities measured at fair value – other financial instruments	-	(1,239)
Liabilities measured at amortised cost – other creditors	(2,944)	(36,401)
	<u>12,368</u>	<u>39,983</u>

Notes to the financial statements

at 7 January 2017

23. Operating leases

On 27 November 2013, the company signed an agreement with Network Rail Infrastructure Limited for access to the railway infrastructure. The contract took effect from January 2014 and transferred to the new franchisee on 31st March 2016. The variable charges covered track usage, traction and EC4T, and were primarily dependent upon train miles run.

The company had contracts to lease rolling stock from Angel Trains Contracts Limited, Eversholt Rail (UK) Limited and Porterbrook Leasing Company Limited, and these contracts also expired at the end of the franchise.

At 9 January 2016 the group had the following commitments under non-cancellable operating leases:

	<i>Fixed track access £000</i>	<i>Property £000</i>	<i>Rolling stock £000</i>	<i>Other £000</i>
Less than one year	4,398	4,979	18,760	160

24. Contingent liabilities

As the franchisee, the company's trading subsidiary, Northern Rail Limited, procured two performance bonds in favour of the Department for Transport (formerly in favour of the Strategic Rail Authority). These bonds are in place for the franchise term and for a period of seven reporting periods after the end of the franchise.

The performance bond amount as at 7 January 2017 was £nil (9 January 2016: £26,062,000).

In addition, Northern Rail Limited, as the franchisee, has procured two season ticket bonds in favour of the Department for Transport. The maximum season ticket bonds value as at 7 January 2017 was £nil (9 January 2016: £5,647,000). The season ticket bonds expired on 31 March 2016.

25. Related party transactions

Group

Transactions with related parties outside of the group, the nature of the relationship and the effect of the transactions with them are summarised below:

	<i>52 weeks ended 7 January 2017 £000</i>	<i>53 weeks ended 9 January 2016 £000</i>
<i>Serco Group plc</i>		
Services provided	5	2
Services received	-	(39)
Recharges – payable	(86)	(130)
Interest	<u>(144)</u>	<u>(177)</u>

All of the above expenses were payable to/receivable from Serco Group plc and its subsidiaries, which are related parties by virtue of Serco Group plc owning 50% of the issued share capital of the company's immediate parent undertaking. At 7 January 2017, amounts due to Serco Group plc amounted to £173,260 and amounts due from Serco Group plc amounted to £nil (9 January 2016: amounts due to Serco Group plc amounted to £124,494 and amounts due from Serco Group plc amounted to £nil).

Notes to the financial statements

at 7 January 2017

25. Related party transactions (continued)

	52 weeks ended 7 January 2017	53 weeks ended 9 January 2016
<i>NV Nederlandse Spoorwegen</i>	£000	£000
Recharges – receivable	10	400
Recharges – payable	(431)	(98)
Provision of services	150	273
Interest	(159)	(177)

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 7 January 2017, amounts due to NV Nederlandse Spoorwegen amounted to £42,023 and amounts due from NV Nederlandse Spoorwegen amounted to £nil (9 January 2016: amounts due to NV Nederlandse Spoorwegen amounted to £1,533,338 and amounts due from NV Nederlandse Spoorwegen amounted to £847,033).

	52 weeks ended 7 January 2017	53 weeks ended 9 January 2016
<i>Merseyrail Electrics 2002 Ltd</i>	£000	£000
Station access charges and related costs	-	(793)
Recharges - receivable	(458)	127

The above expenses were payable to Merseyrail Electrics 2002 Limited, a related party by virtue of the fact that both Northern Rail Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At 7 January 2017, amounts due to Merseyrail Electrics 2002 Limited were £53,000 (9 January 2016: £376,749).

26. Ultimate parent undertaking and controlling party

The ultimate controlling parties of Northern Rail Holdings Limited are NV Nederlandse Spoorwegen and Serco Group plc. These companies each own 50% of the share capital of the company 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 The Company Secretary at Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.