

# Northern Rail Holdings Limited

## Report and Financial Statements

3 January 2015

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COMPANIES HOUSE

## **Officers and Professional Advisors**

### **Directors**

Dominic Booth  
Jan Chaudhry  
Julian Edwards  
Jeffrey Hoogesteger  
Ian Downie  
Gary Shilston  
Christiaan Smulders  
David Stretch

### **Secretary**

Everssecretary Limited  
Eversheds House  
70 Great Bridgewater Street  
Manchester M1 5ES

### **Auditors**

Ernst and Young LLP  
100 Barbirolli Square  
Manchester M2 3EY

### **Bankers**

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

### **Solicitors**

Stephenson Harwood LLP  
1 Finsbury Circus  
London EC2M 7SH

### **Registered Office**

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

Registered Number: 4007719

## Strategic report

The directors present their Strategic report for the 52 weeks ended 3 January 2015.

### Principal activities

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

The principal activity of the group is the operation of passenger railway services in the North of England under a Franchise agreement awarded by the Department for Transport.

The group employs approximately 5,000 people, runs 2,500 train services every day and has a portfolio of 464 stations (representing 20% of the total of Britain’s national rail network). Operations range from single-track branch lines with very simple track, signalling and station infrastructure to multi-trafficked high speed and densely used parts of the network.

The group’s train services are operated by a fleet of 318 trains comprising 12 different types of diesel or 25kV AC electric multiple units. These generally operate as two, three or four coach trains, with some peak hour services strengthened to be longer than this and some rural branch lines served by single carriage trains. The company maintains most of the rolling stock fleet at four large depots at Manchester (Newton Heath), Leeds (Neville Hill), Newcastle (Heaton) and Liverpool (Allerton).

Northern’s operations serve a region with a population of 14.2m. The region represents 21% of the UK’s GDP. The group has a critical role to play in providing accessible transport that can be relied upon for commuting, leisure and business purposes. Our services also provide access to and from remote rural and coastal communities, offering an important method of social inclusion for local residents.

### Trading results

The group entered into an interim franchise agreement from 1 April 2014 to continue to operate passenger railway services in the North of England until 6 February 2016. This contract has subsequently been extended to 1 April 2016.

In April 2014, the group also entered into a new Network Rail control period, resulting in a lower level of Network Rail cost and subsidy. The impact of this was a £79.4m reduction to the grant income received from the Department for Transport, and therefore the primary reason for the £81.3m fall in total grant income. This was also the major contributing factor towards the turnover decrease of 11.5% to £568.3m when compared to the previous period (52 weeks ended 4 January 2014: £642.4m).

Passenger revenue of £243.5m (52 weeks ended 4 January 2014: £229.5m) represents an increase of 6.1% versus the previous period.

Operating profit of £17.8m (52 weeks ended 4 January 2014: £35.2m) represented a decrease of 49.4%.

When the franchise began in December 2004, the public performance measure (PPM) moving annual average, which represents the number of trains on time over the previous 12 months, was 83.79%. In the 52 weeks to 3 January 2015 the PPM averaged 90.88%.

### Initiatives

The group has invested £2.2m on capital projects during the period with station and staff accommodation refurbishments being undertaken to improve the surroundings and services for both the customer and employees. As part of these improvements, the group has continued to install Customer Information Screens, with the further implementation of screens at 100 stations planned during 2015/16. Further improvements to facilities for passengers at a number of stations across the network include the refurbishment of waiting rooms and shelters, Ticket Vending Machines, CCTV, lighting, help points and greater level access.

## Strategic report (continued)

### Review of the period

During the interim franchise agreement period the group will deliver a number of committed obligations to ensure value for the customer is maintained. The obligations to be delivered include the installation of new customer information screens in 100 locations; the adoption of more innovative solutions to provide accurate information to customers at locations that do not currently have real time information; and to invest in a range of environmental initiatives to reduce energy consumption, reduce resource usage and prevent pollution.

In May 2014, the group opened an additional station in the north east of England, James Cook station in Middlesbrough. Delivered in partnership with Tees Valley Unlimited, Network Rail, Middlesbrough Council and South Tees Hospitals NHS Foundation Trust service levels have increased to 17 Northern Rail trains per day, in each direction, calling at the station on the line between Middlesbrough and Nunthorpe, with four of the services travelling as far as Whitby.

The group took delivery of the first of 20 electric trains in the summer of 2014 and work to recondition and refresh these units is ongoing in anticipation of launching a new electric service between Liverpool Lime Street and Manchester / Preston in 2015. The introduction of these larger, four-carriage trains will increase Northern's total capacity by an estimated 4.8 million seats in an ecologically sustainable way.

Northern provided a significant level of support for Le Grand Depart of the Tour de France in Yorkshire during July 2014. Record numbers of customers were experienced across the Yorkshire region and Northern delivered exceptional customer service to an estimated 150,000 additional customers throughout the event. The Association of Train Operating Companies' Cycle Awards recognised the group's contribution to the Tour de France through its award of the Operator of the Year award in November 2014.

### Health and safety

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

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

### Outlook

The directors have performed an analysis of detailed trading and cash flow forecasts, taking into account considerable downward sensitivities, and are confident that the group is well placed to trade successfully over the franchise period. The forecasts demonstrate the group's ability to continue to service its debts as they fall due, and hence the net current liabilities position at the balance sheet date is no cause for concern.

The group was initially set up to operate a franchise and the expectation is that the group will cease to trade once that franchise has ended. The group will subsequently remain in existence as the outstanding assets and liabilities unwind. A bid process is currently ongoing and the new franchise operator is expected to be announced in late 2015. The new franchise will be operated through a new legal entity which does not form part of this group.

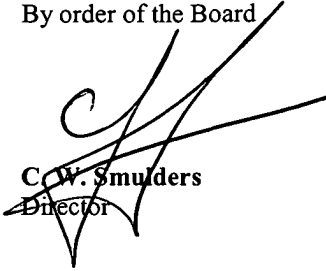
On 1 April 2014, the group entered into a contract to continue to operate local and regional services across the North of England until 6 February 2016. This contract has subsequently been extended to 1 April 2016.

## Strategic report (continued)

### Principal risks and uncertainties

In common with most train operators the main competitors to our business are the car, taxis and bus operators. To mitigate the risks from these pressures, the group works with stakeholders, shareholders and wider community organisations to ensure that the group's services meet and exceed the requirements of our passengers.

By order of the Board



C.W. Smulders  
Director

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

Date:

7-4-2015

## Directors' report

The directors present their report and financial statements for the 52 weeks ended 3 January 2015.

### Results and dividends

The profit for the period after taxation amounted to £18.5m (52 weeks ended 4 January 2014: profit of £30.1m).

The directors recommended a final dividend of £8.7m (52 weeks ended 4 January 2014: £10.4m), which was paid on 19 December 2014, together with interim dividends of £4.8m, £1.0m and £3.3m which were paid on 27 March 2014, 20 June 2014 and 26 September 2014 respectively.

### Directors

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

Dominic Booth

Jeffrey Hoogesteger

Ian Downie

Christiaan Smulders

Joanne Roberts (Resigned 26 March 2014)

Andrew White (Resigned 26 March 2014)

Keith Luck (Appointed 26 March 2014, Resigned 6 January 2015)

David Stretch (Appointed 26 March 2014)

Julian Edwards (Appointed 18 September 2014)

Jan Chaudhry (Appointed 18 September 2014)

Gary Shilston (Appointed 6 January 2015)

### Political contributions

The group made no political donations during the period.

### 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 against price fluctuation, the group enters into forward contracts to hedge a proportion of its exposures to fuel price and related foreign exchange movements.

### 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.

## Directors' report (continued)

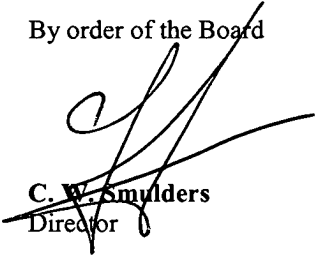
### Disclosure of information to the auditor

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



C. W. Smulders  
Director

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

Date: 7-4-2015

## 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 3 January 2015 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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 the 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 3 January 2015 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 matter prescribed by the Companies Act 2006**

In our opinion 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.

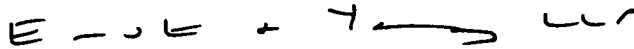
# Independent auditor's report (continued)

to the members of Northern Rail Holdings Limited

## Matters on which we are required to report by exception

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

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



Gary Harding (Senior Statutory Auditor):  
For and on behalf of Ernst & Young LLP (Statutory Auditor)  
Manchester  
Date: 8 April 2015

## Group profit and loss account

for the period ended 3 January 2015

		52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
	Notes		
<b>Turnover</b>	2	568,308	642,401
Operating expenditure	3	(550,544)	(607,164)
<b>Operating profit</b>		17,764	35,237
Net finance income	4	5,777	4,189
<b>Profit on ordinary activities before taxation</b>		23,541	39,426
Tax	6	(5,078)	(9,366)
<b>Profit for the financial period</b>	17	18,463	30,060

All amounts relate to continuing activities.

## Group statement of total recognised gains and losses

for the period ended 3 January 2015

		52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
	Note		
Profit for the financial period		18,463	30,060
Actuarial loss relating to pension scheme	20	(1,060)	(3,647)
Deferred tax attributable to actuarial loss		212	766
<b>Total recognised gains and losses relating to the period</b>		17,615	27,179

## Group balance sheet

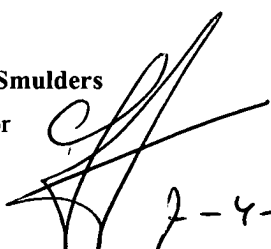
at 3 January 2015

		3 January 2015	4 January 2014
	Notes	£000	£000
<b>Fixed assets</b>			
Intangible assets	8	962	1,377
Tangible assets	9	7,317	8,713
		<u>8,279</u>	<u>10,090</u>
<b>Current assets</b>			
Stocks	11	3,583	3,689
Debtors	12	36,974	38,684
Cash at bank and in hand		33,503	48,920
		<u>74,060</u>	<u>91,293</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(75,409)</u>	<u>(94,360)</u>
<b>Net current liabilities</b>		<u>(1,349)</u>	<u>(3,067)</u>
<b>Total assets less current liabilities</b>		6,930	7,023
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(1,628)</u>	<u>(1,927)</u>
<b>Net assets excluding pension liability</b>		5,302	5,096
<b>Pension liability</b>	20	<u>(2,756)</u>	<u>(2,365)</u>
<b>Net assets including pension liability</b>		<u>2,546</u>	<u>2,731</u>
<b>Capital and reserves</b>			
Called up share capital	16	-	-
Profit and loss account	17	2,546	2,731
<b>Shareholders' funds</b>	18	<u>2,546</u>	<u>2,731</u>

C. W. Smulders

Director

Date:

 2-4-2015

## Company balance sheet

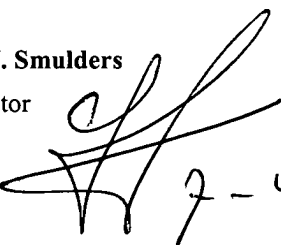
at 3 January 2015

		3 January 2015	4 January 2014
Notes		£	£
<b>Fixed assets</b>			
Investments	10	4	4
<b>Creditors:</b> amounts falling due within one year	13	(2)	(2)
<b>Total assets less current liabilities</b>		<u>2</u>	<u>2</u>
<b>Capital and reserves</b>			
Called up share capital	16	2	2
Profit and loss account	17	-	-
<b>Shareholders' funds</b>	18	<u>2</u>	<u>2</u>

C. W. Smulders

Director

Date:

 7-4-2015

## Group statement of cash flows

for the period ended 3 January 2015

		52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
	Notes		
<b>Net cash inflow from operating activities</b>	19(a)	12,565	56,383
<b>Returns on investments and servicing of finance</b>			
Interest received		341	322
Interest paid		(484)	(343)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(143)	(21)
<b>Taxation</b>			
UK corporation tax paid		(7,178)	(9,495)
		(7,178)	(9,495)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(2,185)	(1,916)
Purchase of intangible fixed assets		(401)	(564)
<b>Net cash outflow from capital expenditure</b>		(2,586)	(2,480)
<b>Equity dividends paid</b>		(17,800)	(28,300)
<b>Net cash (outflow)/inflow before financing</b>		(15,142)	16,087
<b>Financing</b>			
Repayment of loan		-	(402)
Proceeds from sale and leaseback arrangement		-	2,197
Repayment of the capital element of hire purchase agreement		(275)	-
<b>Net cash (outflow)/inflow from financing</b>		(275)	1,795
<b>(Decrease)/increase in cash</b>	19(b)	(15,417)	17,882

### Reconciliation of net cash flow to movement in net funds

		52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
<b>(Decrease)/increase in cash in the period</b>		(15,417)	17,882
Net cash outflow/(inflow) from decrease/(increase) in debt		275	(1,795)
Movement in net funds resulting from cash flows		(15,142)	16,087
<b>Net funds at beginning of period</b>	19(b)	46,723	30,636
<b>Net funds at end of period</b>	19(b)	31,581	46,723

## Notes to the financial statements

at 3 January 2015

### 1. Accounting policies

#### *Basis of preparation*

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

#### *Going concern*

The directors have performed an analysis of detailed trading and cash flow forecasts, taking into account considerable downward sensitivities, and are confident that the group is well placed to trade successfully over the franchise period. The forecasts demonstrate the group's ability to continue to service its debts as they fall due, and hence the net current liabilities position at the balance sheet date is no cause for concern.

The group was initially set up to operate a franchise and the expectation is that the group will cease to trade once that franchise has ended on 1 April 2016. The group will subsequently remain in existence as the outstanding assets and liabilities unwind. A bid process is currently ongoing and the new franchise operator is expected to be announced in late 2015. The new franchise will be operated through a new legal entity which does not form part of this group.

The directors have considered this position and have prepared the financial statements for the period ended 3 January 2015 on a basis other than that of a going concern. The directors do not consider there to be any measurement differences that would impact on the results presented within these financial statements.

#### *Group financial statements*

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to the accounting reference date.

#### *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. 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 consideration given over the fair value of the identifiable assets and liabilities acquired. Franchise goodwill was capitalised and is written off on a straight line basis over the life of the franchise.

Franchise bid costs associated with securing a rail franchise are expensed as incurred, except where preferred bidder status has been reached. All directly attributable and incremental costs after achieving preferred bidder status are recognised as an intangible asset and are amortised on a straight-line basis over the life of the franchise.

#### *Tangible fixed assets*

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

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

#### *Investments*

Investments are stated at cost, net of any provision for impairment.

## Notes to the financial statements

at 3 January 2015

### 1. Accounting policies (continued)

#### **Stocks**

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

#### **Deferred taxation**

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

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

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

#### **Leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

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

#### **Pensions**

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis. The 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 fund, discounted back to present value.

The current service cost is charged to operating profit. The finance cost of liabilities and expected return on assets are shown as a net amount of other finance charges or credits on the face of the Profit and Loss account. The service cost is included as part of staff costs in note 5. The actuarial gain/loss is charged through the Statement of Total Recognised Gains and Losses.

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

#### **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.



## Notes to the financial statements

at 3 January 2015

### 2. Turnover

The group has one principal class of business being the operation of passenger railway services. Turnover is analysed as follows:

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Passenger income	243,534	229,518
Grant	274,836	356,185
Other	49,938	56,698
	<u>568,308</u>	<u>642,401</u>

### 3. Operating profit

This is stated after charging/(crediting)

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Depreciation of owned tangible fixed assets	3,581	3,275
Amortisation of intangible fixed assets	816	558
Rental income receivable	(970)	(1,077)
Access and related charges payable to Network Rail	65,756	129,496
Operating lease rentals payable – rolling stock	71,085	37,588
– property leases	21,374	21,333
– other	741	572
	<u>741</u>	<u>572</u>

#### *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

	101	97
	<u>16</u>	<u>9</u>

#### *Analysis of operating expenditure in the period*

Raw materials and consumables	59,079	57,709
Staff costs – wages and salaries	186,907	180,564
– social security costs	14,619	14,318
– other pension costs	23,848	20,269
Other external charges	259,178	329,959
Depreciation and amortisation of tangible and intangible fixed assets	4,397	3,833
Restructuring costs	2,516	512
	<u>550,544</u>	<u>607,164</u>

## Notes to the financial statements

at 3 January 2015

### 4. Net finance income

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Bond costs	(347)	(343)
Interest receivable and similar income	341	322
Net return on pension scheme assets (note 20)	5,920	4,210
Interest payable on hire purchase agreements	(137)	-
	<u>5,777</u>	<u>4,189</u>

### 5. Staff costs

Staff costs during the period (including directors)

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Wages and salaries	186,907	180,564
Social security costs	14,619	14,318
Pension costs	23,848	20,269
	<u>225,374</u>	<u>215,151</u>

Average monthly number of persons employed (including directors)

	<i>No.</i>	<i>No.</i>
Operational	3,366	3,361
Engineering and maintenance	882	893
Administration and support	739	748
	<u>4,987</u>	<u>5,002</u>

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

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

Christiaan Smulders and Jeff Hoogesteger were remunerated through Abellio Transport Holdings BV.

Ian Downie, Joanne Roberts, Andrew White, Keith Luck and David Stretch were remunerated through Serco Limited.

It is not practicable to ascertain what proportions of the Directors' emoluments relate to the group.

## Notes to the financial statements

at 3 January 2015

### 6. Tax

#### (a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
<b>Current tax</b>		
United Kingdom corporation tax	5,303	9,188
Adjustment in respect of prior periods	(192)	(231)
Total current tax (note 6(b))	<u>5,111</u>	<u>8,957</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(214)	(222)
Movement in pension provision	121	472
Effect of rate change	84	95
Adjustment in respect of prior periods	(24)	64
Total deferred tax (note 6(c))	<u>(33)</u>	<u>409</u>
Total tax profits on ordinary activities	<u>5,078</u>	<u>9,366</u>

#### (b) Factors affecting the current tax charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 21.5% (52 weeks ended 4 January 2014: 23.2%). The differences are explained below:

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Profit on ordinary activities before tax	<u>23,541</u>	<u>39,426</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (52 weeks ended 4 January 2014: 23.2%)	5,055	9,160
<i>Effects of:</i>		
Expenses not deductible for tax purposes	243	278
Depreciation in excess of capital allowances	148	195
Movement in short term timing differences	(143)	(445)
Adjustment in respect of prior periods	(192)	(231)
Current tax for the period (note 6(a))	<u>5,111</u>	<u>8,957</u>

## Notes to the financial statements

at 3 January 2015

### 6. Tax (continued)

(c) Deferred taxation

	<i>Group</i> <i>£000</i>
At 4 January 2014 including deferred tax on pension liability	1,762
Adjustment in respect of prior periods	24
Debited to the profit and loss account	93
Amount credited to the statement of total recognised gains and losses	212
Effect of rate change	(84)
At 3 January 2015 including deferred tax on pension liability	<u>2,007</u>

The analysis of the deferred tax asset is as follows:

	<i>3 January</i> <i>2015</i> <i>£000</i>	<i>4 January</i> <i>2014</i> <i>£000</i>
Included in debtors (note 12)	1,318	1,134
Included in pension liability (note 20)	689	628
	<u>2,007</u>	<u>1,762</u>

	<i>3 January</i> <i>2015</i> <i>£000</i>	<i>4 January</i> <i>2014</i> <i>£000</i>
Depreciation in excess of capital allowances	1,052	842
Other timing differences	266	292
Pension liability	689	628
	<u>2,007</u>	<u>1,762</u>

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

(d) Factors that may affect future tax charges

In his 2013 Budget Statement, the Chancellor of the Exchequer announced certain tax changes which have an effect on the group's future tax position. The proposals included a reduction in the corporation tax rate to 20%, effective from 1 April 2015. This reduction is in addition to the reduction to 21%, effective from 1 April 2014. As at the balance sheet date, both of the announced reductions have been 'substantively enacted' and these are therefore reflected in the closing deferred tax balances.

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

## Notes to the financial statements

at 3 January 2015

### 7. Dividends

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Paid – £8.9m per ordinary share (52 weeks ended 4 January 2014: £14.15m per ordinary share)	17,800	28,300

The directors recommended a final dividend of £8,700,000 (52 weeks ended 4 January 2014: £10,400,000), which was paid on 19 December 2014, together with interim dividends of £4,800,000, £1,000,000 and £3,300,000 which were paid on 27 March 2014, 20 June 2014 and 26 September 2014 respectively.

### 8. Intangible fixed assets

<i>Group</i>	<i>Franchise bid costs £000</i>	<i>Franchise goodwill £000</i>	<i>Total £000</i>
Cost:			
At 4 January 2014	4,276	17,181	21,457
Additions	401	-	401
At 3 January 2015	4,677	17,181	21,858
Amortisation:			
At 4 January 2014	3,672	16,408	20,080
Charge for the period	445	371	816
At 3 January 2015	4,117	16,779	20,896
Net book value:			
At 3 January 2015	560	402	962
At 4 January 2014	604	773	1,377

### 9. Tangible fixed assets

<i>Group</i>	<i>Short leasehold buildings £000</i>	<i>Plant and machinery £000</i>	<i>Assets under construction £000</i>	<i>Total £000</i>
Cost:				
At 4 January 2014	1,045	32,654	268	33,967
Additions	-	2,110	75	2,185
Transfer	-	267	(267)	-
At 3 January 2015	1,045	35,031	76	36,152
Accumulated depreciation:				
At 4 January 2014	958	24,296	-	25,254
Charge for the period	43	3,538	-	3,581
At 3 January 2015	1,001	27,834	-	28,835
Net book value:				
At 3 January 2015	44	7,197	76	7,317
At 4 January 2014	87	8,358	268	8,713

## Notes to the financial statements

at 3 January 2015

### 9. Tangible fixed assets (continued)

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

Included in plant and machinery are assets with cost of £2,197,000 (4 January 2014: £2,197,000) and depreciation of £864,000 (4 January 2014: £589,000) relating to items held under hire purchase agreement.

### 10. Investments

*Subsidiary  
undertakings*  
£

At 4 January 2014 and 3 January 2015

4

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

#### **Investments held as fixed assets**

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

## Notes to the financial statements

at 3 January 2015

### 11. Stocks

	<i>Group</i>	
	<i>3 January</i>	<i>4 January</i>
	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>
Raw materials and consumables	3,583	3,689

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

### 12. Debtors

	<i>Group</i>	
	<i>3 January</i>	<i>4 January</i>
	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	18,309	21,712
Other debtors	6,816	5,799
Deferred taxation (note 6(c))	1,318	1,134
Amounts due from related parties (note 23)	25	100
Prepayments and accrued income	10,506	9,939
	36,974	38,684

### 13. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>3 January</i>	<i>4 January</i>	<i>3 January</i>	<i>4 January</i>
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>£000</i>	<i>£000</i>	<i>£</i>	<i>£</i>
Trade creditors	18,131	28,879	-	-
Corporation tax	2,422	4,489	-	-
Other creditors	12,222	12,133	-	-
Taxation and social security	4,051	4,220	-	-
Accruals and deferred income	36,757	43,974	-	-
Amounts owed to group undertakings	-	-	2	2
Amounts due to related parties (note 23)	1,529	390	-	-
Obligations under hire purchase agreement (note 15)	297	275	-	-
	75,409	94,360	2	2

## Notes to the financial statements

at 3 January 2015

### 14. Creditors: amounts falling due after more than one year

	<i>Group</i>	
	<i>3 January 2015 £000</i>	<i>4 January 2014 £000</i>
Other creditors	3	5
Obligations under hire purchase agreement (note 15)	1,625	1,922
	<u>1,628</u>	<u>1,927</u>

### 15. Obligations under hire purchase agreement

	<i>Group</i>	
	<i>3 January 2015 £000</i>	<i>4 January 2014 £000</i>
Amounts payable under hire purchase agreement:		
Within one year	412	412
In the second to fifth years inclusive	1,648	1,648
After five years	206	618
	<u>2,266</u>	<u>2,678</u>
Less: future finance charges	(344)	(481)
Present value of lease obligations	<u>1,922</u>	<u>2,197</u>

The hire purchase agreement is on a fixed repayment basis with the final instalment due in June 2020. The obligations under the hire purchase agreement are secured by the lessors' rights over the assets to which the agreement relates.

### 16. Issued share capital

	<i>3 January 2015</i>		<i>4 January 2014</i>	
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
'A' ordinary shares of £1 each	1	1	1	1
'B' ordinary shares of £1 each	1	1	1	1
		<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.



# Notes to the financial statements

at 3 January 2015

## 17. Movements on reserves

	<i>Group profit and loss account £000</i>	<i>Company profit and loss account £</i>
At 4 January 2014	2,731	-
Profit for the financial period	18,463	17,800,000
Actuarial loss relating to pension scheme	(1,060)	-
UK deferred tax attributable to actuarial loss	212	-
Dividends	(17,800)	(17,800,000)
At 3 January 2015	<u>2,546</u>	<u>-</u>

The company has taken advantage of section 408 of the Companies Act 2006 not to present its own profit and loss account.

## 18. Reconciliation of shareholders' funds

	<i>Group</i>		<i>Company</i>	
	<i>3 January 2015 £000</i>	<i>4 January 2014 £000</i>	<i>3 January 2015 £</i>	<i>4 January 2014 £</i>
Profit for the financial period	18,463	30,060	17,800,000	28,300,000
Other recognised gains and losses (net)	(848)	(2,881)	-	-
Dividend	(17,800)	(28,300)	(17,800,000)	(28,300,000)
Net decrease in shareholders' funds	(185)	(1,121)	-	-
Opening shareholders' funds	2,731	3,852	2	2
Closing shareholders' funds	<u>2,546</u>	<u>2,731</u>	<u>2</u>	<u>2</u>

## Notes to the financial statements

at 3 January 2015

### 19. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Operating profit	17,764	35,237
Depreciation of tangible fixed assets	3,581	3,275
Amortisation of intangible fixed assets	816	558
Decrease in stocks	106	621
Decrease in debtors	1,894	11,952
(Decrease)/increase in creditors	(16,908)	2,578
Adjustment for pension funding	5,312	2,162
Net cash inflow from operating activities	<u>12,565</u>	<u>56,383</u>

(b) Analysis of net funds

	<i>At 4 January 2014 £000</i>	<i>Cash flows £000</i>	<i>Non-cash flows £000</i>	<i>At 3 January 2015 £000</i>
Cash at bank and in hand	48,920	(15,417)	-	33,503
Debt due within one year	(275)	275	(297)	(297)
Debt due after one year	(1,922)	-	297	(1,625)
Net funds	<u>46,723</u>	<u>(15,142)</u>	<u>-</u>	<u>31,581</u>

## Notes to the financial statements

at 3 January 2015

### 20. Pensions

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 group 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.

The valuations used have been based on the most recent actuarial valuations at 31 December 2010 and updated by Mercer Human Resources in order to assess the liabilities of the schemes as at the subsequent balance sheet dates. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are applied to each category of scheme assets. 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:

	<i>3 January 2015</i>	<i>4 January 2014</i>	<i>5 January 2013</i>
Discount rate	3.80%	4.70%	4.60%
Rate of increase in salaries	2.95%	3.80%	3.40%
Rate of increase in deferred pensions	1.95%	2.60%	2.20%
Rate of increase in pensions in payment	1.95%	2.60%	2.20%
Inflation assumption	2.95%	3.30%	2.90%

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

# Notes to the financial statements

at 3 January 2015

## 20. Pensions (continued)

### *Eastern division:*

	<i>3 January 2015 £000</i>	<i>4 January 2014 £000</i>	<i>5 January 2013 £000</i>
Total market value of assets	346,517	304,009	272,631
Present value of scheme liabilities	(492,620)	(443,159)	(389,094)
Deficit in the scheme	(146,103)	(139,150)	(116,463)
Members' share of deficit	58,441	55,660	46,586
Franchise adjustment	85,404	81,440	68,845
Group's share of deficit	(2,258)	(2,050)	(1,032)
Related deferred tax asset	452	430	238
Net pension liability	(1,806)	(1,620)	(794)

### *Western division:*

	<i>3 January 2015 £000</i>	<i>4 January 2014 £000</i>	<i>5 January 2013 £000</i>
Total market value of assets	293,956	260,188	233,989
Present value of scheme liabilities	(381,766)	(342,370)	(300,505)
Deficit in the scheme	(87,810)	(82,182)	(66,516)
Members' share of deficit	35,124	32,873	26,606
Franchise adjustment	51,499	48,366	39,548
Group's share of deficit	(1,187)	(943)	(362)
Related deferred tax asset	237	198	83
Net pension liability	(950)	(745)	(279)

### *Amounts included within operating profit*

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
<i>Combined divisions</i>		
Current service cost	23,848	20,269
Total included within operating profit	23,848	20,269

## Notes to the financial statements

at 3 January 2015

### 20. Pensions (continued)

#### Amounts included in net finance income

	52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
<i>Combined divisions</i>		
Expected return on scheme assets	22,260	18,480
Interest cost on scheme liabilities	(22,440)	(19,260)
Interest on franchise adjustment	6,100	4,990
Net finance income	<u>5,920</u>	<u>4,210</u>

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

	52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
<i>Combined divisions</i>		
Actual return less expected return on assets	29,903	15,116
Experience gains and losses on liabilities	(6,911)	-
Gains and losses on change in assumptions	(25,048)	(35,186)
Experience gains and losses on franchise adjustment	996	16,423
Actuarial loss recognised	<u>(1,060)</u>	<u>(3,647)</u>

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

<i>Combined divisions</i>	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Difference between expected and actual returns on scheme assets	29,903	15,116	5,183	(29,802)	14,554
Percentage of scheme assets	5%	3%	1%	(6%)	3%
Experience gains and losses on scheme liabilities	(31,959)	(35,186)	17,456	(3,394)	6,983
Percentage of scheme liabilities	(4%)	(4%)	3%	(1%)	1%
Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment	(2,056)	(20,070)	22,639	(33,196)	21,538
Percentage of scheme liabilities	-	(3%)	3%	(5%)	4%
Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment	(1,060)	(3,647)	(326)	436	(2,900)

## Notes to the financial statements

at 3 January 2015

### 20. Pensions (continued)

#### *Analysis of the movement in the scheme deficit during the period*

<i>Combined divisions</i>	<i>3 January 2015 £000</i>	<i>4 January 2014 £000</i>
<b><i>Change in benefit obligation</i></b>		
Benefit obligation at the beginning of the period	(785,529)	(689,599)
Current service cost	(39,179)	(33,270)
Past service cost	(65)	-
Interest cost	(37,400)	(32,100)
Actuarial loss	(33,329)	(48,434)
Benefits paid	21,116	17,874
Benefit obligation at the end of the period	(874,386)	(785,529)
<b><i>Change in plan assets</i></b>		
Fair value of plan assets at the beginning of the period	564,197	506,620
Expected return on plan assets	37,100	30,800
Actuarial gain	29,903	15,116
Contributions	29,700	28,766
Additional contributions – brass matching	689	769
Benefits paid	(21,116)	(17,874)
Fair value of plan assets at the end of the period	640,473	564,197
Funded status	(233,913)	(221,332)
Members share of deficit at end of period	93,565	88,533
Franchise adjustment	136,903	129,806
Net amount recognised	(3,445)	(2,993)
Related deferred tax asset	689	628
	(2,756)	(2,365)

Cumulative gains since the adoption of FRS17 amount to £9,587,000 (52 weeks ended 4 January 2014: £10,647,000).

## Notes to the financial statements

at 3 January 2015

### 21. Other financial commitments

On 27 November 2013, the group signed an agreement with Network Rail Infrastructure Limited for access to the railway infrastructure. The contract, which took effect from January 2014, will expire on the date of the principal timetable change date during December 2016 (or transfer to the successor franchise operator if earlier). The variable charges cover track usage, traction and EC4T, and are primarily dependent upon train miles run.

The group has contracts which commit it to lease rolling stock from Angel Trains Contracts Limited, Eversholt Rail (UK) Limited and Porterbrook Leasing Company Limited. These contracts are due to expire at the end of the franchise.

At 3 January 2015 the group had the following commitments under non-cancellable and non-transferrable operating leases:

	<i>Fixed track access £000</i>	<i>Property £000</i>	<i>Rolling stock £000</i>	<i>Other £000</i>
Operating leases which expire:				
In two to five years	20,660	21,691	75,981	722
	<u>20,660</u>	<u>21,691</u>	<u>75,981</u>	<u>722</u>

### 22. Contingent liabilities

As the franchisee, the company's trading subsidiary, Northern Rail Limited, has 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 3 January 2015 was £26,062,000 (4 January 2014: £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 3 January 2015 was £5,633,000 (4 January 2014: £5,298,000). The bonds were due to expire on 31 March 2015 (see note 26).

## Notes to the financial statements

at 3 January 2015

### 23. 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:

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Recharges – receivable	38	29
Recharges – payable	(227)	(439)
Interest	(175)	(172)

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. At 3 January 2015, amounts due to Serco Group plc amounted to £124,460, and amounts due from Serco Group plc amounted to £nil (4 January 2014: amounts due to Serco Group plc amounted to £129,705 and amounts due from Serco Group plc amounted to £28,656 ).

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Recharges – receivable	581	596
Recharges – payable	(133)	(117)
Provision of services	(1,034)	-
Interest	(175)	(172)
Commission payable	-	(293)

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. At 3 January 2015, amounts due to NV Nederlandse Spoorwegen amounted to £1,332,237 and amounts due from NV Nederlandse Spoorwegen amounted to £24,884 (4 January 2014: amounts due to NV Nederlandse Spoorwegen amounted to £195,437 and amounts due from NV Nederlandse Spoorwegen amounted to £71,358).

	<i>52 weeks ended 3 January 2015 £000</i>	<i>52 weeks ended 4 January 2014 £000</i>
Station access charges and related costs	(762)	(700)

The above expenses were payable to Merseyrail Electrics 2002 Limited, a related party by virtue of the fact that both Northern Rail Holdings Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At 3 January 2015, amounts due to Merseyrail Electrics 2002 Limited were £72,675 (4 January 2014: £64,441).



## Notes to the financial statements

at 3 January 2015

### 24. 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.

### 25. Financial instruments not included at fair value

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 commodity swap contracts, to hedge a proportion of its exposures to fuel price and related foreign exchange movements. The commodity swap contracts that were in place as at the periods ending 4 January 2014 and 3 January 2015 were between Northern Rail Limited and Britannic Trading Limited.

A commodity swap contract in place with Britannic Trading Limited was cash settled and ran from 19 September 2013 to 31 March 2014. The total volume for the contract was 22,322,800 litres, at a fixed rate of £0.4870 per litre for the term of the contract. Britannic Trading Limited paid a floating rate on this contract. The floating rate was calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate.

A commodity swap contract in place with Britannic Trading Limited is cash settled and became effective from 1 April 2014, running to 6 February 2016. The total volume for the contract is 72,979,244 litres, at a fixed rate of £0.4945 per litre for the term of the contract. Britannic Trading pay a floating rate on this contract. The floating rate is calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate.

The 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 converted into GBP using the forward rate.

The fair value of the fuel hedge liability at 3 January 2015 was calculated to be £8,101,772 (the fair value of the fuel hedge at 4 January 2014 was a liability calculated to be £1,254,074).

### 26. Post balance sheet events

On 26 February 2015, the Department for Transport confirmed that the interim franchise agreement had been extended from 6 February 2016 to 1 April 2016.

In addition, the company's trading subsidiary, Northern Rail Limited, has also procured two season ticket bonds in favour of the Department for Transport which have replaced the season ticket bonds discussed in note 22. The maximum season ticket bonds value is £5,647,000 and they expire on 31 March 2016.