

NORTHERN RAIL HOLDINGS LIMITED
(formerly Serco Northern Limited)

Report and Financial Statements

7 January 2005



NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

REPORT AND FINANCIAL STATEMENTS 2005

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NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Brian Burdsall
Andrew Smith
Antoine Valk
Peter van Toor
Christiaan Smulders
Matthew Stevens

REGISTERED OFFICE

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

BANKERS

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

SOLICITORS

Denton Wilde Sapte
One Fleet Street
London
EC4M 7WS

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Leeds

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

DIRECTORS' REPORT

The directors present their first annual report and the audited financial statements for the 53 week period ended 7 January 2005.

ACTIVITIES

The group's principal activity is the operation of passenger railway services in the North of England under a franchise agreement awarded by the Strategic Rail Authority. All trading activities are conducted through Northern Rail Limited. Northern Rail Holdings Limited holds 100% of the share capital in this trading company.

REVIEW OF DEVELOPMENTS AND PROSPECTS

At the beginning of the year, the company was a wholly owned subsidiary of Serco Holdings Limited. On 7 April 2004, NedRailways BV was allotted one ordinary share, which was transferred to Nedrailways Northern Rail Limited on 6 August 2004. At the end of the year, Northern Rail Holdings Limited was a joint venture partnership between Serco Holdings Limited and Nedrailways Northern Rail Limited.

On 6 July 2004, the company increased its shareholding in Northern Rail Limited, the group's trading entity, from 75% to 100% of the ordinary share capital.

On 18 October 2004, Northern Rail Limited signed a franchise agreement with the Strategic Rail Authority to operate the Northern Franchise for 6¼ years with effect from 12 December 2004. On this date, Northern Rail Limited acquired certain assets and liabilities from Arriva Trains Northern Limited and North Western Trains Company Limited. Prior to 12 December 2004, Northern Rail Holdings Limited and Northern Rail Limited did not trade.

The directors believe the performance of the business in the period to be satisfactory and are confident about the future performance of the business.

RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES

The group made a profit after taxation of £246,000 (26 weeks ended 31 December 2003: £nil).

The directors do not recommend payment of a dividend (26 weeks ended 31 December 2003: £nil).

DIRECTORS AND THEIR INTERESTS

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

Philip Dennis	(Resigned 4 August 2004)
Brian Burdsall	(Appointed 4 August 2004)
Andrew Smith	(Appointed 23 September 2004)
Christiaan Smulders	(Appointed 31 March 2005)
Matthew Stevens	(Appointed 1 February 2005)
Antoine Valk	(Appointed 4 August 2004)
Peter van Toor	(Appointed 4 August 2004)
Rohan Jensen	(Appointed 4 August 2004, resigned 1 February 2005)
Marcellinus Niggebrugge	(Appointed 4 August 2004, resigned 31 March 2005)
Ian Downie	(Resigned 23 September 2004)

No directors had any beneficial interest in the issued share capital of the company during the period ended 7 January 2005.

EMPLOYEE INVOLVEMENT AND DISABLED EMPLOYEES

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

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

CHARITABLE CONTRIBUTIONS

The group made no charitable donations during the period (26 weeks ended 31 December 2003: £nil).

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

DIRECTORS' REPORT

AUDITORS

On 30 June 2005, Deloitte & Touche LLP were appointed as the company's first auditors. Prior to the 53 weeks ended 7th January 2005 no auditors were required as the company was dormant.

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

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, consisting of stylized, overlapping loops and a long horizontal stroke extending to the right.

Matthew Stevens

Director

26 October 2005

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and company as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

We have audited the financial statements of Northern Rail Holdings Limited for the 53 week period ended 7 January 2005 which comprise the profit and loss account, the balance sheets, the cashflow statement, the statement of total recognised gains and losses, and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 7 January 2005 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

28 October 2005

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

CONSOLIDATED PROFIT AND LOSS ACCOUNT 53 weeks ended 7 January 2005

		53 weeks ended 7 January 2005		26 weeks ended 31 December 2003	
	Note	£'000	£'000	£'000	£'000
TURNOVER	2		34,986		-
Operating expenditure					
- Exceptional redundancy cost	3	(397)		-	
- Other operating expenditure		(34,116)		-	
Total operating expenditure	4		(34,513)		-
OPERATING PROFIT	4		473		-
Net interest payable	5		(122)		-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			351		-
Tax on profit on ordinary activities	7		(105)		-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD TRANSFERRED TO RESERVES	18		246		-

All amounts relate to continuing operations arising from the new franchise operation which commenced on 12 December 2004.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than those appearing in the profit and loss account in both the current and preceding financial period and therefore no statement of recognised gains and losses has been presented.

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

CONSOLIDATED BALANCE SHEET
7 January 2005

	Note	7 January 2005 £'000	31 December 2003 £'000
FIXED ASSETS			
Intangible assets	8	11,979	-
Tangible assets	9	2,162	-
Investments	11	-	-
		<hr/> 14,141	<hr/> -
CURRENT ASSETS			
Stocks	12	3,168	-
Debtors	13	18,413	-
Cash at bank and in hand		27,726	-
		<hr/> 49,307	<hr/> -
CREDITORS: amounts falling due within one year	14	(42,990)	-
		<hr/> 6,317	<hr/> -
NET CURRENT ASSETS			
		6,317	-
TOTAL ASSETS LESS CURRENT LIABILITIES		20,458	-
CREDITORS: amounts falling due after one year	15	(12,020)	-
PROVISIONS FOR LIABILITIES AND CHARGES	16	(8,192)	-
		<hr/> 246	<hr/> -
NET ASSETS			
		<hr/> <hr/> 246	<hr/> <hr/> -
CAPITAL AND RESERVES			
Called up share capital	17	-	-
Profit and loss account	18	246	-
		<hr/> 246	<hr/> -
TOTAL EQUITY SHAREHOLDERS' FUNDS	19	<hr/> <hr/> 246	<hr/> <hr/> -

These financial statements were approved by the Board of Directors on 26 October 2005.

Signed on behalf of the Board of Directors



Matthew Stevens

Director

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

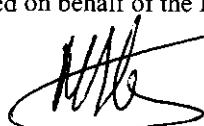
COMPANY BALANCE SHEET

7 January 2005

	Note	7 January 2005 £'000	31 December 2003 £'000
FIXED ASSETS			
Investments	10	-	-
CURRENT ASSETS			
Debtors	13	-	-
CREDITORS: amounts falling due within one year	14	-	-
NET CURRENT ASSETS		-	-
TOTAL ASSETS LESS CURRENT LIABILITIES		-	-
NET ASSETS		-	-
CAPITAL AND RESERVES			
Called up share capital	17	-	-
Profit and loss account	18	-	-
TOTAL EQUITY SHAREHOLDERS' FUNDS		-	-

These financial statements were approved by the Board of Directors on 26 October 2005.

Signed on behalf of the Board of Directors



Matthew Stevens

Director

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

CONSOLIDATED CASH FLOW STATEMENT

53 weeks ended 7 January 2005

		53 weeks ended 7 January 2005	26 weeks ended 31 December 2003
	Note	£'000	£'000
Net cash inflow from operating activities	25	23,273	-
Returns on investments and servicing of finance			
Interest received		24	-
Interest paid		(8)	-
		<hr/>	<hr/>
Net cash inflow from returns on investments and servicing of finance		16	-
Capital expenditure			
Purchase of tangible fixed assets		(65)	-
Franchise bid costs		(3,712)	-
		<hr/>	<hr/>
Net cash outflow for capital expenditure		(3,777)	-
Acquisitions			
Acquisition of franchise assets and liabilities		(3,909)	-
Net cash acquired		123	-
		<hr/>	<hr/>
Net cash outflow for acquisitions		(3,786)	-
Net cash inflow before financing		15,726	-
Financing			
New loan		12,000	-
		<hr/>	<hr/>
Increase in cash	26	<u>27,726</u>	<u>-</u>

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the current period and preceding period.

Basis of accounting

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

Basis of consolidation

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

Turnover

Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited, mainly in respect of passenger receipts. Grant income relates to rail support from the Strategic Rail Authority 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 arising on the acquisition of a franchise, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 6 $\frac{3}{4}$ years. Franchise bid costs are capitalised and amortised over the life of the franchise of 6 $\frac{3}{4}$ years. Provision is made for any impairment.

Tangible fixed assets and depreciation

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

Depreciation is provided to write off the cost less residual value of tangible fixed assets on a straight line basis over their useful economic lives or the franchise period of 6 $\frac{3}{4}$ years as appropriate.

The economic lives are as follows:

Buildings	10 - 20 years
Plant and machinery, motor vehicles and fixtures and fittings	5 - 10 years
Computer and IT equipment	3 years

Taxation

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

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

1. ACCOUNTING POLICIES (continued)

Leases

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

Stocks

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

Pension costs

The Railways Pension Scheme provides pension benefits to employees on a defined benefit basis. The scheme is funded by contributions from both the employer and the employees. The cost of providing future benefits is estimated by independent qualified actuaries using the projected unit valuation method. Variations in pension costs are spread over the expected service lives of current employees.

The funding policy is also based on the projected unit valuation method, however any surplus or deficit arising from experience or benefit changes may be recognised at a different rate than under the accounting policy.

The company has adopted FRS 17 in these financial statements but only in respect of disclosure requirements contained in the transitional arrangements. Accounting for pension costs in the primary statements still, therefore, follows SSAP 24.

The sum of the cumulative differences between contributions paid by the company into the scheme and the charge to the profit and loss account under SSAP 24, and deficits that were recognised on acquisition, are provided in the financial statements.

2. TURNOVER

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

Turnover is analysed as follows:

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Passenger income	7,535	-
Grant	24,958	-
Other	2,493	-
	<u>34,986</u>	<u>-</u>

3. EXCEPTIONAL COSTS

Exceptional redundancy costs of £397,000 were incurred by the group's trading entity, Northern Rail Limited, as a result of restructuring necessary when the Northern Rail Franchise was acquired.

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

4. OPERATING PROFIT

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Operating profit is stated after charging/(crediting):		
Depreciation		
- tangible fixed assets	35	-
Auditors' remuneration		
- audit fees	55	-
Rental income receivable	(66)	-
Access and related charges payable to Network Rail	8,825	-
Operating lease rentals payable		
- Rolling stock	2,561	-
- Property leases	1,968	-
- Other	28	-
	<hr/>	<hr/>
Analysis of operating expenditure in the period:		
Raw materials and consumables	2,232	-
Staff costs:		
- Wages and salaries	9,562	-
- Social security costs	711	-
- Other pension costs	819	-
Other external charges	20,757	-
Depreciation and other amounts written off tangible and intangible fixed assets	35	-
Exceptional - redundancy	397	-
	<hr/>	<hr/>
	34,513	-
	<hr/>	<hr/>

5. NET INTEREST PAYABLE

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Interest payable and similar charges	146	-
Less: interest receivable and similar income	(24)	-
	<hr/>	<hr/>
	122	-
	<hr/>	<hr/>
Analysis of interest payable and similar charges:		
Interest payable to joint venture partners	139	-
Performance and season ticket bond costs	7	-
	<hr/>	<hr/>
	146	-
	<hr/>	<hr/>

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Directors' remuneration		
Total directors emoluments for the period (excluding pension)	11	-
Total directors pension contribution	1	-
	<u>12</u>	<u>-</u>
	53 weeks ended 7 January 2005 No	26 weeks ended 31 December 2003 No
Number of directors who are members of a defined benefit scheme	<u>2</u>	<u>-</u>
Average number of persons employed (including directors)		
Operational	264	-
Engineering and maintenance	56	-
Administration and support	30	-
	<u>350</u>	<u>-</u>
	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Staff costs during the period (including directors)		
Wages and salaries	9,562	-
Social security costs	711	-
Pension costs	819	-
	<u>11,092</u>	<u>-</u>

Pension costs include £74,000 (26 weeks ended 31 December 2003: £nil) of matching contributions to BRASS, the additional voluntary contribution arrangement for Railway Pension Scheme members.

Antoine Valk was remunerated through NedRailways BV. Peter van Toor and Marcellinus Niggebrugge were remunerated through NS Groep NV. Brian Burdsall, Philip Dennis, Rohan Jensen, Andrew Smith and Ian Downie were remunerated through Serco Limited. It is not practicable to ascertain what proportion of their emoluments relates to the company.

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS 53 weeks ended 7 January 2005

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
The tax charge comprises:		
Current tax		
United Kingdom corporation tax	73	-
Total current tax	73	-
Deferred tax charge		
Movement in pension provision	32	-
Total deferred tax charge	32	-
Total tax charge on profit on ordinary activities	105	-

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

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Profit on ordinary activities before tax	351	-
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (26 weeks ended 31 December 2003: 30%)	105	-
Effects of:		
Movement in pension provision	(32)	-
Current tax charge for the period	73	-

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS 53 weeks ended 7 January 2005

8. INTANGIBLE FIXED ASSETS

Group	Franchise bid costs £'000	Franchise goodwill £'000	Total £'000
Cost			
At 1 January 2004	-	-	-
Additions	3,712	8,267	11,979
At 7 January 2005	3,712	8,267	11,979
Amortisation			
At 1 January 2004	-	-	-
Charge for period	-	-	-
At 7 January 2005	-	-	-
Net book value			
At 7 January 2005	3,712	8,267	11,979
At 31 December 2003	-	-	-

The franchise bid relate to costs incurred in obtaining the franchise rights to the operation of the Northern franchise.

Franchise goodwill is shown in note 23.

9. TANGIBLE FIXED ASSETS

Group	Short leasehold buildings £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost				
At 1 January 2004	-	-	-	-
Additions	1,012	1,053	132	2,197
At 7 January 2005	1,012	1,053	132	2,197
Depreciation				
At 1 January 2004	-	-	-	-
Charge for the period	11	24	-	35
At 7 January 2005	11	24	-	35
Net book value				
At 7 January 2005	1,001	1,029	132	2,162
At 31 December 2003	-	-	-	-

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

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

10. INVESTMENTS IN SUBSIDIARY UNDERTAKING

Cost	£
Shares in subsidiary undertaking:	
At 1 January 2004	3
Acquisition in the year (1 ordinary share of £1 each)	1
	<hr/>
At 7 January 2005	4
	<hr/>

On 6 July 2004, the company increased its stake in Northern Rail Limited from 75% to 100% through the acquisition of one 'B' ordinary share for consideration of £1. Northern Rail Limited, a company incorporated in England, operates passenger railway services.

11. INVESTMENTS HELD AS FIXED ASSETS

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

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

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

12. STOCKS

	Group	
	7 January 2005	31 December 2003
	£'000	£'000
Raw materials and consumables	3,168	-
	<hr/>	<hr/>

13. DEBTORS

	Group		Company	
	7 January 2005	31 December 2003	7 January 2005	31 December 2003
	£'000	£'000	£'000	£'000
Trade debtors	9,377	-	-	-
Other debtors	3,780	-	-	-
Prepayments and accrued income	5,256	-	-	-
Called up share capital not paid	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	18,413	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	7 January 2005 £'000	31 December 2003 £'000	7 January 2005 £'000	31 December 2003 £'000
Trade creditors	19,780	-	-	-
Amounts owed to group undertakings	3,712	-	-	-
Corporation tax	73	-	-	-
Other creditors	2,113	-	-	-
Other taxation and social security	2,843	-	-	-
Accruals and deferred income	14,469	-	-	-
	<u>42,990</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

	Group	
	7 January 2005 £'000	31 December 2003 £'000
Amounts owed to group undertakings	12,000	-
Other creditors	20	-
	<u>12,020</u>	<u>-</u>
Amounts owed to group undertakings are repayable as follows:		
- between one and two years	-	-
- between two and five years	12,000	-
	<u>12,000</u>	<u>-</u>

The £12m loan consists of £6m owed to NV Nederlandse Spoorwegen and a further £6m owed to Serco Group plc. Each loan agreement is a short term single currency (sterling) term loan facility. Final repayment of any loan outstanding is due 4 years after the date of the agreement (7 December 2008). However, this date may be extended if agreed amongst Northern Rail Limited, Serco Group plc and NV Nederlandse Spoorwegen.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Group £'000
At 1 January 2004	-
Acquired in the period (see note 23)	11,810
SSAP 24 cost for the period (see note 21)	638
Contributions paid in period	(745)
	<u>11,703</u>
Related deferred tax asset	(3,511)
	<u>8,192</u>
At 7 January 2005	

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

16 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The details of the pension provision are disclosed in note 21.

The group trades profitably and therefore it is considered more likely than not that there will be sufficient future trading profits against which timing differences giving rise to the deferred tax asset will reverse.

17. CALLED UP SHARE CAPITAL

	7 January 2005 £	31 December 2003 £
Authorised:		
50 'A' ordinary shares of £1 each	50	50
50 'B' ordinary shares of £1 each	50	50
	<u> </u>	<u> </u>
Called up, allotted and unpaid:		
1 'A' ordinary shares of £1 each	1	1
1 'B' ordinary shares of £1 each	1	-
	<u> </u>	<u> </u>
	2	1
	<u> </u>	<u> </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.

On 7 April 2004, one ordinary 'B' share was called up and allotted to NedRailways BV. This was subsequently transferred to Nedrailways Northern Rail Limited on 6 August 2004.

18. RESERVES

	Group profit and loss account £'000	Company profit and loss account £'000
At 1 January 2004	-	-
Retained profit for the financial period	246	-
	<u> </u>	<u> </u>
At 7 January 2005	246	-
	<u> </u>	<u> </u>

The company has taken advantage of Section 230 of the Companies Act 1985 not to present a company profit and loss account. The retained profit of the company for the period was £nil.

19. RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Profit for the financial period	246	-
	<u> </u>	<u> </u>
Net addition to equity shareholders' funds	246	-
Opening equity shareholders' funds	-	-
	<u> </u>	<u> </u>
Closing equity shareholders' funds	246	-
	<u> </u>	<u> </u>

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

20. CONTINGENT LIABILITIES

The group's trading entity, Northern Rail Limited, as the Northern franchise holder, has procured two performance bonds in favour of the Strategic Rail Authority. These bonds took effect from 18 October 2004 for the franchise term and for a period of 7 reporting periods after the end of the franchise.

The initial expiry date of the franchise is 18 September 2011. However, this can be extended subject to meeting certain performance criteria to 15 September 2013. The performance bond amount as at 7 January 2005 was £5,769,932.

In addition, Northern Rail Limited, as the Northern franchise holder, has procured two season ticket bonds in favour of the Strategic Rail Authority. The bonds are dated 3 December 2004 and take effect from the franchise commencement date of 12 December 2004. The total season ticket bond value as at 7 January 2005 was £1,290,172.

21. PENSION ARRANGEMENTS

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.

Eastern Division

The last formal valuation of the Section took place at 31 December 2001. At that date, the market value of the Section's assets was £146.7m, and this represented 111% of the value of the Section's liabilities assessed using the following principal assumptions:

	% per annum
Investment return	
- existing assets	5.64
- future contributions	6.30
Pay growth	4.00
Inflation and pension increases	2.50

At the commencement of the Northern franchise on 12 December 2004, a provision relating to the deficit in the pension scheme was established. This amounted to £4,250,000 (before allowing for the impact of deferred taxation). The employers pension cost for the period was £428,000, reflecting the long term expected employers contribution, adjusted to amortise the provision over the employees' average expected working lifetime.

During the period the employer commenced making contributions to the section, and for the period covered these amounted to £465,000. This resulted in a closing provision of £4,213,000.

Western Division

The last formal valuation of the Section took place at 31 December 2001. At that date, the market value of the Section's assets was £139.4m, and this represented 115% of the value of the Section's liabilities assessed using the following principal assumptions:

	% per annum
Investment return	
- existing assets	5.59
- future contributions	6.30
Pay growth	4.00
Inflation and pension increases	2.50

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

21. PENSION ARRANGEMENTS (continued)

At the commencement of the Northern franchise on 12 December 2004, a provision relating to the deficit in the pension scheme was established. This amounted to £7,560,000 (before allowing for the impact of deferred taxation). The employers pension cost for the period was £210,000, reflecting the long term expected employers contribution, adjusted to amortise the provision over the employees' average expected working lifetime.

During the period the employer commenced making contributions to the section, and for the period covered these amounted to £280,000. This resulted in a closing provision of £7,490,000.

The total movement on the provision is as detailed in note 16.

Combined Divisions

The employer made contributions of £745,000 in the period covered. These are expected to amount to approximately £9.7m over a full year.

At the year end a SSAP 24 liability of £11,703,000 less a deferred tax asset of £3,511,000 has been recognised in the financial statements.

The SSAP 24 charge for the period was £638,000 (26 weeks ended 31 December 2003: £nil).

FRS 17 retirement benefits

The accounting standard, FRS 17 Retirement Benefits, has been issued and applies to accounting periods ending on or after 1 January 2005, with transitional requirements applying in the current period. Under the transitional arrangements of FRS 17, the group is required to disclose the following information about the scheme and the figures that would have been shown in the balance sheet if FRS 17 was applied in full at 7 January 2005.

Responsibility for the scheme was acquired from Arriva Trains Northern Limited and North Western Trains Company Limited on 12 December 2004 (as detailed in note 22), therefore comparative information has not been provided.

The full actuarial valuation at 31 December 2001 was updated to 7 January 2005 by a qualified actuary, using the following assumptions in relation to future experience. The rates detailed below have been used for both divisions:

	7 January 2005	12 December 2004
Discount rate	5.25%	5.25%
Rate of increase in salaries	4.20%	4.20%
Rate of increase in deferred pensions	2.75%	2.75%
Rate of increase in pensions in payment	2.75%	2.75%
Inflation assumption	2.75%	2.75%

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

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

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

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53 weeks ended 7 January 2005

21. PENSION ARRANGEMENTS (continued)

Eastern Division:

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

	7 January 2005 Long term rate of return expected	7 January 2005 Value £'000	12 December 2004 Long term rate of return expected	12 December 2004 Value £'000
Equities	8.0%	105,000	8.0%	102,000
Bonds	5.0%	21,200	5.0%	21,000
Property	6.5%	21,800	6.5%	21,700
Total market value of assets		148,000		144,700
Present value of scheme liabilities		(176,600)		(175,400)
Members' share of deficit		11,440		12,280
Restriction in recognised deficit		12,890		14,170
Deficit in scheme		(4,270)		(4,250)
Related deferred tax asset		1,280		1,270
Net pension liability		(2,990)		(2,980)

Western Division:

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

	7 January 2005 Long term rate of return expected	7 January 2005 Value £'000	12 December 2004 Long term rate of return expected	12 December 2004 Value £'000
Equities	8.0%	99,900	8.0%	97,100
Bonds	5.0%	12,600	5.0%	12,500
Property	6.5%	20,500	6.5%	20,400
Total market value of assets		133,000		130,000
Present value of scheme liabilities		(143,500)		(142,600)
Members' share of deficit		4,200		5,040
Deficit in scheme		(6,300)		(7,560)
Related deferred tax asset		1,900		2,270
Net pension liability		(4,400)		(5,290)

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

21. PENSION ARRANGEMENTS (continued)

Amounts that would have been included within the financial statements for the period ended 7 January 2005 for the aggregate of the two sections had FRS 17 been adopted in full, on the basis that the amounts shown relate solely to the employers share (60%) of the item, are as follows:

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Amounts included within operating profit:		
Current service cost	940	-
Total included within operating profit	940	-
Amounts included as other finance costs:		
Expected return on scheme assets	(860)	-
Interest cost on scheme liabilities	700	-
Net finance return	(160)	-

Amounts that would have been included within the Statement of Total Recognised Gains and Losses in the period to 7 January 2005 had FRS 17 been adopted in full, on the basis that amounts shown relate solely to the employer's share (60%) of the assets and liabilities, are as follows:

	Period ended 7 January 2005 £'000	Period ended 7 January 2005 %
Combined Divisions:		
Difference between actual and expected return on scheme assets - <i>monetary amount and percentage of closing scheme assets</i>	1,275	0.8%
Experience gains arising on scheme liabilities - <i>monetary amount and percentage of closing scheme liabilities</i>	0	0%
Effect of changes in assumptions underlying the present value of scheme liabilities - <i>monetary amount and percentage of closing scheme liabilities</i>	0	0%
Total actuarial gains and losses recognised in the STRGL - <i>monetary amount and percentage of closing scheme liabilities</i>	1,275	0.7%

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

21. PENSION ARRANGEMENTS (continued)

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Analysis of the movement in the scheme surplus during the period		
Acquired deficit in the scheme (see note 23)	(11,810)	-
Current service cost	(940)	-
Contributions	745	-
Past Service Costs	-	-
Other finance income	160	-
Actuarial gains	1,275	-
	<hr/>	<hr/>
Closing deficit in the scheme	(10,570)	-

If the above pension liability were recognised in the financial statements at 7 January 2005, the group's profit and loss reserve would be as follows:

	7 January 2005 £'000	31 December 2003 £'000
Profit and loss reserve	246	-
Reversal of existing SSAP 24 provision, net of deferred tax	8,192	-
Pension provision under FRS 17	(7,390)	-
	<hr/>	<hr/>
Profit and loss reserve including pension liability	1,048	-

22. OPERATING LEASE COMMITMENTS

The group has contracts with Network Rail Infrastructure Ltd for access to the railway infrastructure, which consist of fixed and variable charges. The variable charges cover track usage and traction current and are primarily depending on train miles run. At the 7 January 2005, the group was committed to pay a fixed charge of £5,093,000 for the four week period ended 5 February 2005. On 4 February 2005, the group signed a track access agreement with Network Rail Infrastructure Ltd until 2009.

The group has contracts which commit it to lease rolling stock from Angel Trains Contracts Limited, Porterbrook Leasing Company Limited, First/Keolis Transpennine Limited and West Yorkshire PTE.

These contracts can be terminated by agreement with the relevant rolling stock company.

At 7 January 2005 the group was committed to making the following payments during the next year in respect of operating leases:

	Property £'000	Rolling stock £'000	Other £'000
Leases which expire:			
Within one year	456	-	180
Within two to five years	35	1,162	52
After five years	25,652	32,146	-
	<hr/>	<hr/>	<hr/>
	26,143	33,308	232

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

23. ACQUISITION OF FRANCHISE ASSETS AND LIABILITIES

	North Western Trains Company Limited £'000	Arriva Trains Northern Limited £'000	Total £'000
Net liabilities acquired:			
Tangible fixed assets	-	2,132	2,132
Stock	1,711	1,483	3,194
Other debtors	600	360	960
Cash at bank and in hand	68	55	123
Deferred tax asset	2,268	1,275	3,543
Other Creditors and Provisions	(1,819)	(681)	(2,500)
Pension deficit	(7,560)	(4,250)	(11,810)
			(4,358)
Franchise goodwill			8,267
			3,909
Satisfied by:			
Cash			3,909
Net cash outflows in respect of the acquisition comprised:			
Cash consideration paid			3,909

Certain assets and liabilities of Arriva Trains Northern Limited and First North Western Trains Company Limited were transferred to the group at book value on 12 December 2004, the date of commencement of operation of the Northern franchise.

24. RELATED PARTY TRANSACTIONS

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

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Mobilisation costs	1,859	-
Executive salaries and expense recharges	3	-
Loan	6,000	-
Interest	69	-

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

24. RELATED PARTY TRANSACTIONS (continued)

All of the above expenses were payable to Serco Group plc and its subsidiaries which are related parties by virtue of Serco Group plc ultimately owning 50% of the issued share capital of the company. At 7 January 2005, amounts due to Serco Group plc amounted to £7,931,000.

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Mobilisation costs	1,853	-
Loan	6,000	-
Interest	69	-
	<u> </u>	<u> </u>

All of the above expenses were payable to NV Nederlandse Spoorwegen and its subsidiaries which are related parties by virtue of NV Nederlandse Spoorwegen ultimately owning 50% of the issued share capital of the company. At 7 January 2005, amounts due to NV Nederlandse Spoorwegen amounted to £7,922,000.

25. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Operating profit	473	-
Depreciation of tangible fixed assets	35	-
Decrease in stocks	26	-
Increase in debtors	(17,453)	-
Increase in creditors	40,299	-
Decrease in pension provision	(107)	-
	<u> </u>	<u> </u>
Net cash inflow from operating activities	23,273	-
	<u> </u>	<u> </u>

26. ANALYSIS AND RECONCILIATION OF NET FUNDS

	At 1 January 2004 £'000	Cash flows £'000	Non-cash flows £'000	At 7 January 2005 £'000
Cash in hand, at bank	-	27,726	-	27,726
Debts due after one year	-	(12,000)	-	(12,000)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net funds	-	15,726	-	15,726
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NORTHERN RAIL HOLDINGS LIMITED (formerly Serco Northern Limited)

NOTES TO THE FINANCIAL STATEMENTS

53 weeks ended 7 January 2005

26. ANALYSIS AND RECONCILIATION OF NET FUNDS (continued)

	53 weeks ended 7 January 2005 £'000	26 weeks ended 31 December 2003 £'000
Increase in cash in the period	27,726	-
Cash inflow from new loan	(12,000)	-
Change in net funds resulting from cash flows	15,726	-
Net funds at 1 January 2004	-	-
Net funds at 7 January 2005	15,726	-

27. ULTIMATE CONTROLLING PARTIES

The ultimate controlling parties of Northern Rail Holdings Limited are NV Nederlandse Spoorwegen and Serco Group plc. Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands. Copies of the financial statements of Serco Group plc are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

At the beginning of the year, the company was a wholly owned subsidiary of Serco Holdings Limited. On 7 April 2004, NedRailways BV was allotted one ordinary share, which was transferred to Nedrailways Northern Rail Limited on 6 August 2004. At the end of the year, Northern Rail Holdings Limited was a joint venture partnership between Serco Holdings Limited and Nedrailways Northern Rail Limited.