

**MERSEYRAIL SERVICES HOLDING
COMPANY LIMITED**

Report and Financial Statements

For the 52 weeks ending 8 January 2011

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MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Antoine Valk	(The Netherlands)
Richard Emmerink	(The Netherlands)
Tom Riall	
Richard Judge	
Dominic Booth	
Jeroen Weimar	(The Netherlands)

SECRETARY

Eversecretary Limited

REGISTERED OFFICE

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

BANKERS

National Westminster Bank
Liverpool

Bank of Scotland
Leeds

Anglo Irish Bank
London

ING Bank Rotterdam
Rotterdam

Santander
London

SOLICITORS

Burges Salmon Solicitors
Narrow Quay House
Narrow Quay
Bristol
BS1 4AH

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Liverpool
United Kingdom

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks from 9 January 2010 to 8 January 2011

PRINCIPAL ACTIVITIES

In 2003 Merseyrail were awarded a 25-year concession to provide rail services on behalf of Merseytravel, the Merseyside PTE. This singled out Merseyrail amongst other Train Operating Companies (TOCs), where average length contracts are between 7-10 years. For this reason, Merseyrail are now in the enviable position of being able to take a long-term perspective on the investment and development of rail passenger services. We strive to exceed the expectations of not only the people of Merseyside, but also the wider public transport community. This is in line with the philosophy of its two 50 per cent shareholders Serco Group plc and Abellio (formerly known as NedRailways).

Merseyrail is an urban network of vital importance to the transport infrastructure of Liverpool and Merseyside and is one of the most intensively used networks in the UK, with over 800 train services daily (Monday to Saturday), with a reduced service of 350 train services on Sundays. There are approximately 110,000 passenger journeys each weekday, with 37 million passenger journeys per annum. Around 50% of passengers are daily users.

The business operates 75 route miles in the Merseyside area bisected by the river Mersey. The network has 67 stations, 66 of which are managed by Merseyrail, with terminal stations at Southport, Ormskirk, Kirkby and Hunts Cross to the North and New Brighton, West Kirby, Chester, and Ellesmere Port on the Wirral side of the river. The network also includes 6.5 miles of underground track and 5 underground stations.

The business operates with a fleet of 59 class 507/508 electric trains which underwent an extensive refurbishment in 2004. This included improved seating, advanced passenger information systems and on board CCTV security cameras.

BUSINESS REVIEW

The directors are satisfied with the performance of the group during the period. Turnover was £126,264,000, which was an increase of 1.46% on the previous period (2010 £124,453,000).

Profit on ordinary activities after tax was £9,557,000 an increase of 9.8% on 2010 (2010 £8,704,000).

Throughout 2011 the Moving Annual Average (MAA) for punctuality continued to reach new highs with 7 of 13 periods exceeding 96% Public Performance Measure (PPM). This resulted in Merseyrail being the best performing Train Operating Company (TOC) for 2011 with an end of year MAA of 95.3%.

During the year Merseyrail retained its 100% Secure Station and Car Park accreditation from the Department of Transport (DfT) that we gained in 2010.

Merseyrail have also recently attained Investors in Excellence accreditation, granted by North of England Excellence. This confirms that we have reached the European Foundation for Quality Management standard in 31 areas covering Leadership, Change Management, People Management, Processes and Strategy Development.

Merseyrail believe it is important to contribute to the improvement and well being of Merseyside's environment and community. We were therefore very proud to win the Work Inspiration Award at the Business in the Community North West Regional Awards for its Business Class Partnership with Archbishop Beck Catholic Sports College in Walton Vale. As part of our commitment to our community Merseyrail also support a local charity each year. This year's charity was Woodlands Hospice and we were delighted to be able to raise £100,000 through the involvement of staff and stakeholders in fundraising events throughout the year.

Merseyrail continue to be leading TOC on delivery of the National Station Improvement Programme (NSIP) schemes, a Department for Transport scheme. During 2011 we completed works at our station at Waterloo including a further M-to-go retail outlet.

Merseyrail also received a £1,000,000 grant from Cycling England, funded by the Department of Transport for the building of cycle facilities on our Network. During the year we opened facilities at 18 stations providing 700 secure cycle points. The flagship location at Southport was opened in August 2010 by Chris Boardman CBE, Olympic Cycle gold medallist.

From a customer perspective we have reached a National Passenger Survey (NPS) overall satisfaction score of 93%, the highest in the industry (NPS survey autumn 2010).

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

In the period ended 8th January 2011 the company has invested £1,737,000 in capital improvements across the network to enhance our station and staff facilities

At the period end the cash balance stood at over £11,299,000 (2010 £8,331,000) with a further £2,000,000 on short term investment. The liquidity position has remained strong through the period

OUTLOOK

Throughout the coming months Merseyrail will continue, in partnership with Merseytravel, and others, to make improvements to the network and service, to enable the challenges of the coming year to be met. Capital expenditure is expected to be in line with previous periods. Third party funding will be used for further refurbishments at Liverpool Central Station which is our busiest station for passenger numbers

PRINCIPAL RISKS AND UNCERTAINTIES

The 25 year concession means that the business has certainty and is therefore able to take a long-term view on investment. There are no rail competitors running over the same routes. In common with most train operators the main competitor to the business is the car, taxis and bus operators. To mitigate the risks from these pressures, Merseyrail are working with local and national bodies to ensure that services are provided that meet or exceed the requirements of our stakeholders. The long term nature of the contract means that Merseyrail are able to invest in improvements to the network that are beneficial and attractive to stakeholders

The economic climate in the region has impacted on Merseyrail. There is a higher degree of uncertainty around patronage, and the leadership team within Merseyrail are focused on close monitoring of all relevant KPIs to ensure any required remedial action in response to the emerging conditions is taken

GOING CONCERN

The nature of the Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment. Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator, the directors are confident that the business will continue to be cash generative. The Directors believe this will be achieved without the need for third party funding in the foreseeable future, despite the current economic uncertainty. Thorough cash management processes are followed. Having reviewed the budgets and forecasts for a 12 month period from the date of signing of the financial statements, and taking into consideration the funding position of the business over the foreseeable future, the directors have formed the view that it is appropriate to adopt the going concern basis in preparing these accounts

DIVIDENDS AND TRANSFERS TO RESERVES

The profit for the period after taxation was £9,557,000 (2010 £8,704,000)

A dividend of £9,196,000 for the period has been paid (2010 £8,299,000)

DIRECTORS

The directors who served during this period and thereafter are listed below

Richard Emmerink

Tom Riall

Craig Nunn (appointed 1 March 2010) (resigned 18 February 2011)

Antoine Valk

Hugh Fitzsimmons (resigned 1 March 2010)

Alan Wilson (resigned 1 April 2010)

Dominic Booth

Jeroen Weimar (appointed 1 April 2010)

Richard Judge (appointed 18 February 2010)

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

CHARITABLE CONTRIBUTIONS

During the period, the group made charitable donations and sponsorship payments of £96,337 (2010. £147,485) principally to local charities and groups serving the communities in which the group operates

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

AUDITOR

Elective Resolutions

The appropriate elective resolutions have been passed to dispense with the requirements to

- (i) hold an Annual General Meeting,
- (ii) lay accounts and reports before the company in General Meeting, and
- (iii) appoint auditors annually

Although financial statements and reports will not be laid before the Company in General Meeting in future, any member may requisition a General Meeting by notice in writing to the company at its Registered Office before the expiration of a period of 28 days from the day on which the financial statements and reports were sent to the members

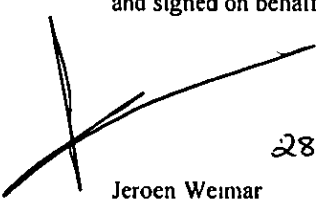
STATEMENT OF DISCLOSURE TO THE AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that

- a) so far as each director is aware there is no relevant audit information of which the company's auditor is unaware, and
- b) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s 418 of the Companies Act 2006

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



Jeroen Weimar
Director

28 03 2011

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DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

We have audited the financial statements of Merseyrail Services Holding Company Limited for the 52 weeks ended 8 January 2011 which comprise the consolidated Profit and Loss Account, the consolidated Statement of Total Recognised Gains and Losses, the consolidated and Parent Company Balance Sheets, the consolidated Cash Flow Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 8 January 2011 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 Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Christopher Powell FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Liverpool, United Kingdom

29 March 2011

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT 52 weeks ended 8 January 2011

		52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
	Note		
TURNOVER	2	126,264	124,453
COST OF SALES			
Other cost of sales		(111,652)	(111,913)
Exceptional costs	4	(1,327)	-
Total cost of sales		(112,979)	(111,913)
OPERATING PROFIT	3	13,285	12,540
Interest receivable and other income	5	127	110
Interest payable and other charges	6	(190)	(194)
Other finance income/(expense)	21	100	(360)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13,322	12,096
Tax on profit on ordinary activities	8	(3,765)	(3,392)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	19,20	9,557	8,704

All of the above results are derived from continuing operations

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
52 weeks ended 8 January 2011

		52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
	Note		
Profit for the financial period		9,557	8,704
Actuarial loss relating to pension scheme	21	(389)	(874)
Deferred tax attributable to actuarial loss		105	245
Adjustment due to change in deferred tax rate		(66)	-
Total recognised gains and losses for the period		<u>9,207</u>	<u>8,075</u>

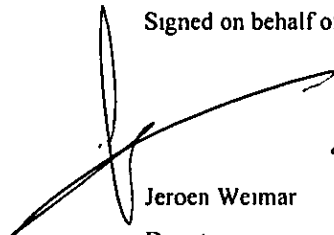
MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

CONSOLIDATED BALANCE SHEET As at 8 January 2011

	Note	8 January 2011 £'000	9 January 2010 £'000
FIXED ASSETS			
Intangible assets	10	2,749	2,905
Tangible assets	11	8,730	8,146
		<u>11,479</u>	<u>11,051</u>
CURRENT ASSETS			
Stocks	13	1,360	1,392
Debtors	14	5,645	5,286
Investments	15	2,000	5,500
Cash at bank and in hand		11,299	8,331
		<u>20,304</u>	<u>20,509</u>
CREDITORS: amounts falling due within one year	16	<u>(21,754)</u>	<u>(21,808)</u>
NET CURRENT LIABILITIES		<u>(1,450)</u>	<u>(1,299)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,029</u>	<u>9,752</u>
CREDITORS: amounts falling due after more than one year	17	<u>(2,513)</u>	<u>(2,906)</u>
NET ASSETS BEFORE PENSION LIABILITY		<u>7,516</u>	<u>6,846</u>
Pension scheme liability	21	<u>(5,372)</u>	<u>(4,713)</u>
NET ASSETS AFTER PENSION LIABILITY		<u>2,144</u>	<u>2,133</u>
CAPITAL AND RESERVES			
Called-up share capital	18	-	-
Profit and loss account	19	2,144	2,133
TOTAL SHAREHOLDERS' FUNDS	20	<u>2,144</u>	<u>2,133</u>

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors



28 03 2011

Jeroen Weimar
Director

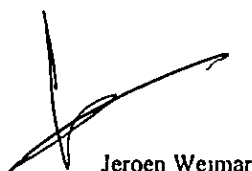
MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

COMPANY BALANCE SHEET As at 8 January 2011

	Note	8 January 2011 £'000	9 January 2010 £'000
FIXED ASSETS			
Investments	12	-	-
CURRENT ASSETS			
Debtors	14	949	580
CREDITORS: amounts falling due within one year	16	(949)	(580)
NET CURRENT ASSETS		-	-
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS		-	-
CAPITAL AND RESERVES			
Called-up share capital	18	-	-
Profit and loss account		-	-
TOTAL SHAREHOLDERS' FUNDS		-	-

The financial statements of Merseyrail Services Holding Company Limited, company number 4620520 were approved by the Board of Directors on

Signed on behalf of the Board of Directors


Jeroen Weimar
Director

28 03 2011

CONSOLIDATED CASH FLOW STATEMENT
52 weeks ended 8 January 2011

		52 weeks ended 8 January 2011		53 weeks ended 9 January 2010	
	Note	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	26		14,683		22,689
Returns on investments and servicing of finance					
Interest received		127		110	
Interest paid		-		(4)	
Interest element of finance lease repayments		(100)		(100)	
Interest element of loan repayments		(90)		(90)	
Net cash outflow from returns on investments and servicing of finance			(63)		(84)
Taxation					
Corporation tax paid		(3,826)		(3,291)	
			(3,826)		(3,291)
Capital expenditure					
Purchase of tangible fixed assets		(1,737)		(937)	
Net cash outflow for capital expenditure			(1,737)		(937)
Equity dividends paid			(9,196)		(8,299)
Net cash (outflow)/inflow before financing			(139)		10,078
Financing					
Repayment of secured loans			(152)		(152)
Capital element of finance lease repayments			(241)		(241)
(Decrease)/increase in cash	28		(532)		9,685

NOTES TO THE ACCOUNTS

52 weeks ended 8 January 2011

1. ACCOUNTING POLICIES

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

Basis of preparation

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

Going concern

The nature of the Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment. Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator and having reviewed the budgets and forecasts for a 12 month period from the date of signing the financial statements, the directors are confident that the business will continue to be cash generative. The directors believe this will be achieved without the need for third party funding in the foreseeable future, despite the worsening economic climate. Accordingly, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for its foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

The financial statements consolidate the financial statements of the company and its subsidiary for the 52 weeks ended 8 January 2011.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Turnover

Passenger income is included in turnover.

Concession payments relate to amounts received from Merseyside Passenger Transport Executive (MPTE) under the Concession Agreement to operate the Merseyrail concession. Other turnover arises from the provision of ancillary services to external parties.

All turnover is recognised at the point at which the service is provided.

Goodwill and intangible fixed assets

For acquisition of a business purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life of 25 years. The directors regard 25 years as a reasonable maximum for the estimated useful life of goodwill since it coincides with the life of the rail concession (25 years) and also it is difficult to make projections exceeding this period.

Other intangible fixed assets are capitalised in the year they are incurred and amortised over their useful economic lives. The concession costs incurred in the period ended 3 January 2004 (shown in note 10) are amortised over the life of the concession (25 years).

Tangible fixed assets and depreciation

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

Depreciation is provided at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life at the following annual rate:

Leasehold buildings	2% - 10% per annum
Plant and machinery, motor vehicles and fixtures and fittings	4% - 33% per annum

No depreciation is provided on land or assets under construction.

Taxation

Current taxation is provided at the 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.

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

1 ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The excess of the lease payments over the recorded lease obligations are treated as finance charges which are amortised over the lease term. Rental costs under operating leases are charged to profit and loss account in equal amounts over the periods of the leases.

Grants

Capital grants and other contributions received towards the cost of tangible fixed assets are included as deferred income in the balance sheet and credited to the profit and loss account over the life of the asset. Revenue grants are credited to the profit and loss account to match off with the expenditure to which they relate.

Stocks

Stock is stated at the lower of cost and net realisable value. Cost includes materials and consumable goods. Provision is made for obsolete, slow-moving and defective items where appropriate.

Current asset investments

Investments held as current assets are stated at the lower of cost and market value at the balance sheet date.

Pension costs

Pension costs are accounted for in accordance with Financial Reporting Standard 17 "Retirement Benefits". For the defined benefit pension scheme the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A "franchise adjustment" is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term, which the company will not be required to fund, discounted back to present value.

The defined benefit pension scheme is funded, with the assets held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at bid value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

1. ACCOUNTING POLICIES (continued)

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

2. TURNOVER

All turnover originates in the United Kingdom and derives from passenger income and other services.

3. OPERATING PROFIT

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Operating profit is stated after charging:		
Loss on disposal of fixed asset	1	2
Depreciation and amortisation		
- intangible fixed assets	156	154
- tangible fixed assets	1,152	1,117
Operating lease rentals		
- Access charges payable to Network Rail	11,916	11,640
- Plant and machinery	10,613	13,814
- Land and buildings	5,665	6,418
	<hr/>	<hr/>
Fees payable to the company's auditors for the audit of the company's annual accounts	50	49
Fees payable to the company's auditors and their associates for other services to the group		
- the audit of the company's subsidiaries pursuant to legislation	3	2
	<hr/>	<hr/>
	53	51
	<hr/>	<hr/>

There were no non-audit services provided during the period (2010 same)

4. EXCEPTIONAL COSTS

In the prior year, there was an ongoing dispute within the industry between several Train Operating Companies ('TOCs') and the British Transport Police Association (BTPA) regarding the charging methodology for their Transport Police Services. The principal issue related to changes in the charging basis introduced by the BTPA with effect from 1 April 2007, which were being disputed by a number of TOCs on the basis that the changes were unlawfully implemented. The dispute was settled on the 12 March 2010, which resulted in the company making a payment of £1,327,004 to the BTPA in settlement of prior period Transport Police services.

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued) 52 weeks ended 8 January 2011

5. INTEREST RECEIVABLE AND OTHER INCOME

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Bank interest	127	110
	<u>127</u>	<u>110</u>

6. INTEREST PAYABLE AND OTHER CHARGES

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Other interest	-	4
Loan interest	90	90
Finance lease interest	100	100
	<u>190</u>	<u>194</u>

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The costs of the directors of Merseyrail Services Holding Company Limited's emoluments are borne by related parties

	52 weeks ended 8 January 2011 No.	53 weeks ended 9 January 2010 No.
Average number of persons employed (including directors)		
Operational	898	869
Engineering and maintenance	142	137
Administration and support	135	141
	<u>1,175</u>	<u>1,147</u>

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Staff costs during the period (including directors)		
Wages and salaries	36,373	34,832
Social security costs	2,554	2,429
Pension costs – defined benefit scheme (see note 21)	3,480	2,460
Pension costs – personal pension schemes	37	30
	<u>42,444</u>	<u>39,751</u>

The company has no employees (2010 same) and hence has no staff costs (2010 same)

NOTES TO THE ACCOUNTS (continued)

52 weeks ended 8 January 2011

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Corporation tax		
United Kingdom corporation tax at 28% (2010 28%) based on the profit for the period	(3,944)	(3,549)
Adjustment in respect of prior periods	77	47
	<u>(3,867)</u>	<u>(3,502)</u>
Deferred tax		
Timing differences	20	20
Adjustment in respect of prior periods	(31)	72
Impact on deferred tax of change in tax rate	(2)	-
FRS 17 adjustments	115	18
	<u>(3,765)</u>	<u>(3,392)</u>

The current corporation tax charge on profit on ordinary activities is higher (2010 higher) than that resulting from applying the standard rate of corporation tax in the UK of 28% (2010 28%)

The differences are explained below

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Profit on ordinary activities before tax	<u>13,322</u>	<u>12,096</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2010 28%)	(3,730)	(3,387)
Effects of		
Expenses not deductible for tax purposes	(194)	(143)
Short term timing differences	(7)	3
Depreciation in excess of capital allowances	(13)	(22)
Adjustment in respect of prior periods	77	47
	<u>(3,867)</u>	<u>(3,502)</u>

Movement on deferred taxation balance in the period:

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Opening asset	97	5
Prior year adjustment	(31)	72
Current year movement	18	20
	<u>84</u>	<u>97</u>

The group trades profitability and therefore it is considered 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

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued) 52 weeks ended 8 January 2011

8 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

Analysis of deferred tax balance:

	8 January 2011 £'000	9 January 2010 £'000
Capital allowances in excess of depreciation	12	30
Short term timing difference	72	67
Deferred tax asset	<u>84</u>	<u>97</u>

Recoverability of the above deferred tax asset is dependent upon future taxable profits

9. EQUITY DIVIDENDS

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Equity dividends paid of £4,598,000 per share (2010 £4,149,500)	<u>9,196</u>	<u>8,299</u>

10. INTANGIBLE FIXED ASSETS

Group	Concession costs £'000	Goodwill £'000	Total £'000
Cost			
At 9 January 2010 and 8 January 2011	<u>726</u>	<u>3,190</u>	<u>3,916</u>
Amortisation			
At 9 January 2010	187	824	1,011
Charge for the year	29	127	156
At 8 January 2011	<u>216</u>	<u>951</u>	<u>1,167</u>
Net book value			
At 8 January 2011	<u>510</u>	<u>2,239</u>	<u>2,749</u>
At 9 January 2010	<u>539</u>	<u>2,366</u>	<u>2,905</u>

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued) 52 weeks ended 8 January 2011

11. TANGIBLE FIXED ASSETS

Group	Leasehold land and freehold buildings £'000	Assets in the course of construction £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 9 January 2010	3,149	12	5,985	3,218	12,364
Additions	-	1,334	162	241	1,737
Disposals	-	-	(23)	-	(23)
Transfers	-	(911)	36	875	-
At 8 January 2011	3,149	435	6,160	4,334	14,078
Accumulated depreciation					
At 9 January 2010	358	-	2,583	1,277	4,218
Charge for the year	109	-	672	371	1,152
Disposals	-	-	(22)	-	(22)
At 8 January 2011	467	-	3,233	1,648	5,348
Net book value					
At 8 January 2011	2,682	435	2,927	2,686	8,730
At 9 January 2010	2,791	12	3,402	1,941	8,146

The cost of assets held by the group under finance leases at 8 January 2011 was £2,543,000 (2010 £2,543,000) The accumulated depreciation provided for on those assets at 8 January 2011 was £1,290,000 (2010 £1,049,000)

The costs of assets held by the company financed by a government grant at 8 January 2011 was £835,000 (2010 £nil) The accumulated depreciation provided for on those assets at 8 January 2011 was £nil (2010 £nil)

12. INVESTMENTS IN SUBSIDIARY UNDERTAKING

Cost	£
Shares in subsidiary undertaking	
At 9 January 2010 and 8 January 2011	2

The investment in the subsidiary relates to 100% of the issued share capital of Merseyrail Electrics 2002 Limited, a company incorporated in England which operates passenger railway services

13. STOCKS

	Group 8 January 2011 £'000	Group 9 January 2010 £'000
Raw materials and consumables	1 147	1,102
Work in progress	213	290
	1 360	1 392

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued) 52 weeks ended 8 January 2011

14. DEBTORS

	Group 8 January 2011 £'000	Company 8 January 2011 £'000	Group 9 January 2010 £'000	Company 9 January 2010 £'000
Trade debtors	1,637	-	2,057	-
Amounts owed by subsidiary undertaking	-	949	-	580
VAT	1,372	-	1,050	-
Other debtors	648	-	324	-
Prepayments and accrued income	1,904	-	1,758	-
Deferred tax asset (see note 8)	84	-	97	-
	<u>5,645</u>	<u>949</u>	<u>5,286</u>	<u>580</u>

15. INVESTMENTS

	8 January 2011 £'000	9 January 2010 £'000
Short term deposits and investments	<u>2,000</u>	<u>5,500</u>

Short term investments comprise of deposits for up to 4 months which are readily convertible to known amounts of cash

16. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 8 January 2011 £'000	Company 8 January 2011 £'000	Group 9 January 2010 £'000	Company 9 January 2010 £'000
Trade creditors	10,475	-	11,951	-
Corporation tax payable	2,077	476	2,036	280
Other creditors	3,789	-	3,004	-
Other taxation and social security	1,000	473	941	300
Accruals and deferred income	4,021	-	3,484	-
Obligations under finance leases	241	-	241	-
Bank loans	151	-	151	-
	<u>21,754</u>	<u>949</u>	<u>21,808</u>	<u>580</u>

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued) 52 weeks ended 8 January 2011

17. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group 8 January 2011 £'000	Group 9 January 2010 £'000
Obligations under finance leases	1,011	1,252
Bank loans	1,502	1,654
	<u>2,513</u>	<u>2,906</u>
Obligations under finance leases		
Within one year	241	241
Within two to five years	783	953
After five years	228	299
	<u>1,252</u>	<u>1,493</u>
Loans are repayable as follows		
Within one year	151	151
Within two to five years	606	606
After five years	896	1,048
	<u>1,653</u>	<u>1,805</u>
Bank loans are secured on the assets to which they relate		
The bank loans bear interest at a fixed rate of 6.6945%		

18. CALLED-UP SHARE CAPITAL

	8 January 2011 £	9 January 2010 £
Called-up, allotted and fully paid		
1 ordinary A share of £1	1	1
1 ordinary B share of £1	1	1
	<u>1</u>	<u>1</u>

19. RESERVES

	Group profit and loss account £'000
As at 9 January 2010	2,133
Profit for the financial period	9,557
Dividends paid (see note 9)	(9,196)
Actuarial gains and losses (net)	(350)
As at 8 January 2011	<u>2,144</u>

The company has taken advantage of Section 408 of the Companies Act 2006 not to present a company profit and loss account. Retained profit of the company for the period was £nil (2010: £nil). Profit for the company is derived from net management charges of £1,944,000 (2010: £1,440,000) and dividends of £7,252,000 (2010: £6,859,000).

NOTES TO THE ACCOUNTS (continued)

52 weeks ended 8 January 2011

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Profit for the financial period	9,557	8,704
Dividends paid (see note 9)	(9,196)	(8,299)
Other recognised gains and losses relating to the period (net)	(350)	(629)
Net addition/(reduction in shareholders' funds	11	(224)
Opening shareholders' funds	2,133	2,357
Closing shareholders' funds	2,144	2,133

Company

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Profit for the financial period	1,944	1,440
Dividends received	7,252	6,859
Dividends paid (see note 9)	(9,196)	(8,299)
Net change in shareholders' funds	-	-
Opening shareholders' funds	-	-
Closing shareholders' funds	-	-

21 PENSION ARRANGEMENTS

Pension Commitments

The Group operates a Section of the Railways Pension Scheme ("the Section") This provides benefits for employees based on final pensionable pay The members are expected to meet 40% of the cost of the emerging benefits The employer made contributions of £2,956,000 in the period (2010 £2,754,000) The expected employer contributions for the next financial period are estimated at £3,300,000

On 8 July 2010, the UK Minister for Pensions announced the Government's intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for determining the pension increases to be applied to the statutory index-linked features of retirement benefits The Rules of the Section refer directly to the relevant legislation, rather than RPI inflation, in respect of increases to deferred pensions and pensions in payment The Company has therefore allowed for increases to pensions in payment and deferment in line CPI inflation

A CPI inflation of 2.9% p a has been assumed at 8 January 2011 This has been set by making a deduction of 0.5% p a to the RPI inflation assumption

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

21. PENSION ARRANGEMENTS (continued)

Actuarial Assumptions

The full actuarial valuation at 31 December 2007 was updated to 8 January 2011 and 9 January 2010 by a qualified actuary, using the following assumptions in relation to future experience

	8 January 2011	9 January 2010	3 January 2009
Discount rate	5.30%	5.70%	6.40%
Rate of increase in salaries	3.90%	4.00%	3.15%
Rate of increase in deferred pensions	2.90%	3.50%	2.65%
Rate of increase in pensions in payment	2.90%	3.50%	2.65%
Inflation assumption	3.40%	3.50%	2.65%
Long term rate of return expected	6.36%	6.74%	6.36%

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

The mortality assumptions used were

		8 January 2011	9 January 2010
Male aged 65 (current life expectancy)	Pension under £8,500 pa or pensionable pay under £30,000 pa	19.8	19.8
	Others	21.5	21.5
Male aged 45 (life expectancy at age 65)	Pension under £8,500 pa or pensionable pay under £30,000 pa	22.2	22.2
	Others	23.7	23.7
Female aged 65 (current life expectancy)	Pension under £8,500 pa or pensionable pay under £30,000 pa	21.7	21.7
	Others	22.7	22.7
Female aged 45 (life expectancy at age 65)	Pension under £8,500 pa or pensionable pay under £30,000 pa	23.2	23.2
	Others	24.2	24.2

The net liability of the group is summarised as follows

	8 January 2011	9 January 2010	3 January 2009	5 January 2008	6 January 2007
	Value £'000	Value £'000	Value £'000	Value £'000	Value £'000
Total market value of assets	92,916	81,766	69,802	89,300	81,367
Present value of scheme liabilities	(128,774)	(120,155)	(79,146)	(96,141)	(86,367)
Members' share of deficit	14,343	15,356	3,738	2,736	2,000
Franchise adjustment	14,156	16,487	-	-	-
Deficit in scheme	(7,359)	(6,546)	(5,606)	(4,105)	(3,000)
Related deferred tax asset	1,987	1,833	1,570	1,149	900
Net pension liability	(5,372)	(4,713)	(4,036)	(2,956)	(2,100)

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

21. PENSION ARRANGEMENTS (continued)

Fair Value of assets

The assets in the scheme were

	8 January 2011 %	8 January 2011 Value £'000	9 January 2010 %	9 January 2010 Value £'000
Equities	70.1	65,115	72.0	58,834
Bonds/Gilts	10.6	9,881	9.9	8,098
Property	9.3	8,667	8.6	7,008
Cash and Other	10.0	9,253	9.5	7,826
	<u>100%</u>	<u>92,916</u>	<u>100%</u>	<u>81,766</u>

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Amounts included within operating profit:		
Current service cost	3,480	2,460
Brass contributions	253	262
Total included within operating profit	<u>3,733</u>	<u>2,722</u>
Amounts included as other finance (income)/costs.		
Expected return on scheme assets	(3,360)	(2,700)
Interest cost on scheme liabilities	4,200	3,060
Interest on franchise adjustment	(940)	-
Net finance return	<u>(100)</u>	<u>360</u>

History of experience gains and losses

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000	52 weeks ended 5 January 2008 £'000	52 weeks ended 6 January 2007 £'000
Difference between actual and expected return on scheme assets					
- <i>monetary amount of closing scheme assets</i>	1,823	2,974	(16,954)	(88)	3,523
Experience gains arising on scheme liabilities					
- <i>monetary amount of closing scheme liabilities</i>	1,067	(700)	(400)	(440)	53
Total pension cost recognised in the Statement of Total Recognised Gains and Losses	(389)	(874)	(1,372)	(1,650)	5,576

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

21 PENSION ARRANGEMENTS (continued)

History of experience gains and losses (continued)

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Analysis of the change in benefit obligation during the period		
Benefit obligation at beginning of the period	120,155	79,146
Current service cost – Employer (including Brass)	3,733	2,722
Current service cost - Employee	2,320	1,640
Interest cost - Employer	4,200	3,060
Interest cost - Employee	2,800	2,040
Actuarial (gains)/losses	(1,759)	33,891
Benefits paid (including Brass)	(2,675)	(2,344)
Benefit obligation at end of period	<u>128,774</u>	<u>120,155</u>

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Analysis of the change in plan assets during the period		
Fair value of plan assets at beginning of the period	81,766	69,802
Expected return on plan assets – Employer	3,360	2,700
Expected return on plan assets – Employee	2,240	1,800
Actuarial gains	3,039	4,956
Employer contribution	2,956	2,754
Employer Brass matching contributions	253	262
Member contributions	1,977	1,836
Benefits paid (including Brass)	(2,675)	(2,344)
Fair value of plan assets at end of period	<u>92,916</u>	<u>81,766</u>

22. CAPITAL COMMITMENTS

	8 January 2011 £'000	9 January 2010 £'000
Contracted for but not provided in the financial statements	<u>31</u>	<u>244</u>

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

23. OPERATING LEASE COMMITMENTS

At 8 January 2011 the group was committed to making the following payments during the next year in respect of operating leases

	Group Land and buildings 8 January 2011 £'000	Group Other 8 January 2011 £'000	Group Land and buildings 9 January 2010 £'000	Group Other 9 January 2010 £'000
Leases which expire				
Within one year	-	37	1,186	34
Within two to five years	5,306	7,940	-	7,824
After five years	421	11,945	418	11,374
	<u>5,727</u>	<u>19,922</u>	<u>1,604</u>	<u>19,232</u>

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

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Serco Group plc		
Other trading transaction income including salary recharges	(10)	(39)
Executive salaries and expense recharges (including non directors)	401	330
Dividends paid and proposed	4,598	4,150
Other trading transaction costs	451	752

All of the above expenses/(income) 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 the period end, the group owed Serco Group plc £60,462 (2010 £49,761). At the period end, the company was owed £11,750 by Serco Group plc (2010 £nil).

	52 weeks ended 8 January 2010 £'000	53 weeks ended 9 January 2010 £'000
NV Nederlandse Spoorwegen		
Other trading transaction income including salary recharges	(23)	(57)
Executive salaries and expense recharges (including non directors)	294	406
Dividends paid and proposed	4,598	4,150
Other trading transaction costs	30	-

All of the above expenses were payable to NV Nederlandse Spoorwegen and its subsidiaries which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company. At the period end, the group owed NV Nederlandse Spoorwegen £1,232,221 (2010 £432,861), with £1,192,218 of this balance relating to consortium tax relief which is held within Corporations Tax on the balance sheet (2010 £412,359). At the period end, the company was owed £11,320 by NV Nederlandse Spoorwegen (2010 £nil).

25. ULTIMATE PARENT COMPANIES AND CONTROLLING PARTIES

The ultimate controlling parties of Merseyrail Services Holding Company 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

NOTES TO THE ACCOUNTS (continued)
52 weeks ended 8 January 2011

of Serco Group plc are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY

26. NOTES TO THE CASH FLOW STATEMENT

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Reconciliation of operating profit to operating cash flows		
Operating profit	13,285	12,540
Depreciation of tangible assets	1,152	1,117
Amortisation of intangible assets	156	154
Loss on disposal of fixed assets	1	2
Decrease/(increase) in stocks	32	(66)
(Increase)/decrease in debtors	(371)	7,553
(Decrease)/increase in creditors	(96)	1,683
Movement in pension commitments	524	(294)
	<hr/>	<hr/>
Net cash inflow from operating activities	14,683	22,689

27 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
(Decrease)/increase in cash in the period	(532)	9,685
Cash outflow from decrease in debt and lease financing	393	393
	<hr/>	<hr/>
Change in net funds resulting from cash movements	(139)	10,078
	<hr/>	<hr/>
Movement in net funds in the period	(139)	10,078
Net funds at start of period	10,533	455
	<hr/>	<hr/>
Net funds at end of period	10,394	10,533

28. ANALYSIS OF NET FUNDS

	At 9 January 2010 £'000	Cash flows £'000	At 8 January 2011 £'000
Cash in hand, at bank	8,331	2,968	11,299
Current investments	5,500	(3,500)	2,000
	<hr/>	<hr/>	<hr/>
	13,831	(532)	13,299
	<hr/>	<hr/>	<hr/>
Bank loans due within one year	(151)	-	(151)
Bank loans due after more than one year	(1,654)	152	(1,502)
Finance leases	(1,493)	241	(1,252)
	<hr/>	<hr/>	<hr/>
	10,394	(139)	10,533