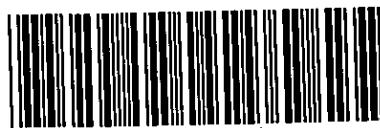


**MERSEYRAIL SERVICES HOLDING
COMPANY LIMITED**

Report and Financial Statements

For the 53 weeks ending 9 January 2010

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MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

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MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Antoine Valk (The Netherlands)
Richard Emmerink (The Netherlands)
Tom Riall
Craig Nunn
Dominic Booth
Alan Wilson

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

SOLICITORS

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

AUDITORS

Deloitte LLP
Chartered Accountants and Statutory Auditors
Liverpool
United Kingdom

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 53 weeks from 4 January 2009 to 9 January 2010

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 which exceeds 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 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 almost 800 train services daily (Monday to Saturday), with a reduced service of 350 train services on Sundays. There are approximately 107,000 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 Kirkby, 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 company during the period. Turnover was £124,453,000, which was a decrease of 2.14% on the previous period (2009 £127,180,000). This reduction in turnover had no adverse impact on our profit levels as it was offset by a reduction in Network Rail charges.

Profit on ordinary activities after tax was £8,704,000 an increase of 8.9% on 2009 (2009 £7,986,000).

Throughout 2010 the Moving Annual Average (MAA) for punctuality continued to reach new highs with 12 of 13 periods exceeding 95% Public Performance Measure (PPM). This resulted in Merseyrail being one of the first two TOCs ever to break the 96% punctuality barrier of trains on time for a continuous 12 month period. This target would have been thought impossible when the concession was awarded in 2003.

During the year Merseyrail became the first TOC to gain 100% secure station accreditation and on 10 January 2010 the last car park was also accredited by the Department of Transport (DfT).

The company was also successful in gaining ISO14001, which is an International Standard relating to the quality of the Environmental Management System.

Development of the network has also included the opening by Lord Adonis, the Secretary of State for Transport, of the flagship MtoGo site at Liverpool Central. This project was partially funded by the National Station Improvement Programme (NSIP), a Department for Transport scheme which Merseyrail have shown real leadership in, by delivering the first NSIP funded project in the country with the redevelopment of Ormskirk station earlier in the year.

Merseyrail have been recognised within the industry with a number of awards, including the prestigious "Putting Passengers First" award at the National Rail Awards in September 2009 for our approach to personal safety and security on trains and stations. From a customer perspective we have reached a National Passenger Survey (NPS) overall satisfaction score of 91%, the highest in the industry.

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

In the period ended 9 January 2010 the company has invested over £900,000 in capital improvements across the network. Through additional investments by third parties in the period, (in particular Merseytravel and Network Rail), major station improvements have helped enhance Merseyrail's station facilities. Improvements to the value of £3 million have been delivered, most notably at Ormskirk, Liverpool Central and Waterloo stations.

At the period end the cash balance stood at over £8,331,000 (2009 £1,396,000) with a further £5,500,000 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 2010 to be met. The 2010 capital expenditure is expected to be in line with previous periods.

Merseyrail have also been selected by the Department of Transport (DfT) to be a Cycling Demonstration TOC. They are providing £1,000,000 of funding for secure cycle storage at locations on the network, along with cycle hire and repair facilities.

Through 2010 it will be of increased importance to demonstrate value for money. We will build on the successes of 2009 that helped us achieve the high levels of satisfaction in the NPS mentioned above.

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 impact 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, 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 £8,704,000 (2009 £7,986,000).

A dividend of £8,299,000 for the period has been paid (2009 £8,169,000).

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

DIRECTORS AND THEIR INTERESTS

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

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

No directors had any beneficial interest in the issued share capital of the company at any time during the period

CHARITABLE CONTRIBUTIONS

During the period, the group made charitable donations and sponsorship payments of £147,485 (2009 £125,742) 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

AUDITORS

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

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

DIRECTORS' REPORT (continued)

STATEMENT OF DISCLOSURE TO THE AUDITORS

In so far as each director is aware

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

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

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

Richard Emmerink

Director
8 March 2010

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 of the profit or loss of the company 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 AUDITORS' REPORT TO THE MEMBERS OF MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

We have audited the financial statements of Merseyrail Services Holding Company Limited for the 53 weeks ended 9 January 2010 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Parent Company Balance Sheets, the Group 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 sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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 9 January 2010 and of the group's profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

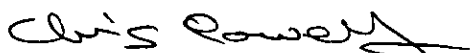
Opinion on other matter prescribed by the Companies Act 2006

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 Auditors
Liverpool, United Kingdom
11 March 2010

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

53 weeks ended 9 January 2010

	Note	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
TURNOVER	2	124,453	127,180
Cost of sales		(111,913)	(116,638)
OPERATING PROFIT	3	12,540	10,542
Interest receivable and other income	4	110	551
Interest payable and other charges	5	(194)	(192)
Other finance (charges)/income	21	(360)	450
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		12,096	11,351
Tax on profit on ordinary activities	7	(3,392)	(3,365)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	19	8,704	7,986

All of the above results are derived from continuing operations

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

53 weeks ended 9 January 2010

	Note	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Profit for the financial period attributable to the members		8,704	7,986
Actuarial loss relating to pension scheme	21	(874)	(1,372)
Deferred tax attributable to actuarial loss		245	384
Total recognised gains and losses for the period		<u>8,075</u>	<u>6,998</u>

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

As at 9 January 2010

	Note	9 January 2010 £'000	3 January 2009 £'000
FIXED ASSETS			
Intangible assets	9	2,905	3,059
Tangible assets	10	8,146	8,328
		<u>11,051</u>	<u>11,387</u>
CURRENT ASSETS			
Stocks	12	1,392	1,326
Debtors	13	5,286	12,747
Investments	14	5,500	2,750
Cash at bank and in hand		8,331	1,396
		<u>20,509</u>	<u>18,219</u>
CREDITORS: amounts falling due within one year	15	<u>(21,808)</u>	<u>(19,914)</u>
NET CURRENT LIABILITIES		<u>(1,299)</u>	<u>(1,695)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,752</u>	<u>9,692</u>
CREDITORS: amounts falling due after more than one year	16	<u>(2,906)</u>	<u>(3,299)</u>
NET ASSETS BEFORE PENSION LIABILITY		<u>6,846</u>	<u>6,393</u>
Pension scheme liability	21	<u>(4,713)</u>	<u>(4,036)</u>
NET ASSETS AFTER PENSION LIABILITY		<u>2,133</u>	<u>2,357</u>
CAPITAL AND RESERVES			
Called-up share capital	18	-	-
Profit and loss account	19	2,133	2,357
TOTAL SHAREHOLDERS' FUNDS	20	<u>2,133</u>	<u>2,357</u>

These financial statements were approved by the Board of Directors on 8 March 2010.

Signed on behalf of the Board of Directors

Director



MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

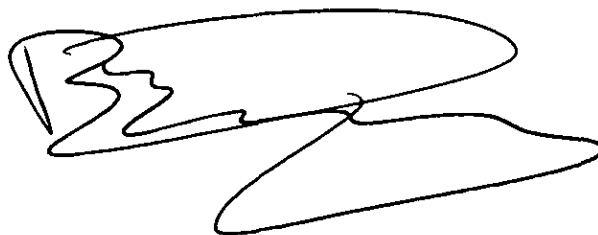
COMPANY BALANCE SHEET As at 9 January 2010

	Note	9 January 2010 £'000	3 January 2009 £'000
FIXED ASSETS			
Investments	11	-	-
CURRENT ASSETS			
Debtors	13	580	368
CREDITORS: amounts falling due within one year	15	(580)	(368)
NET CURRENT ASSETS		-	-
TOTAL ASSETS LESS CURRENT LIABILITIES		-	-
CAPITAL AND RESERVES			
Called-up share capital	18	-	-
Profit and loss account		-	-
TOTAL SHAREHOLDERS' FUNDS		-	-

These financial statements of Merseyrail Services Holding Company Limited, company number 4620520 were approved by the Board of Directors on 8 March 2010.

Signed on behalf of the Board of Directors

Director



MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT

53 weeks ended 9 January 2010

		53 weeks ended 9 January 2010		52 weeks ended 3 January 2009	
	Note	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	26		22,689		7,778
Returns on investments and servicing of finance					
Interest received		110		551	
Interest paid		(4)		-	
Interest element of finance lease repayments		(100)		(103)	
Interest element of loan repayments		(90)		(89)	
Net cash (outflow)/ inflow from returns on investments and servicing of finance			(84)		359
Taxation					
Corporation tax paid		(3,291)		(3,138)	
			(3,291)		(3,138)
Capital expenditure					
Purchase of tangible fixed assets		(937)		(785)	
Net cash outflow for capital expenditure			(937)		(785)
Equity dividends paid			(8,299)		(8,169)
Net cash inflow/(outflow) before financing			10,078		(3,955)
Financing					
Repayment of secured loans			(152)		(151)
Capital element of finance lease repayments			(241)		(241)
Increase/(Decrease) in cash	28		9,685		(4,347)

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the current period 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, 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. Thorough cash management processes are followed, including a review of banking facilities during 2009. Having reviewed the budgets and forecasts, 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.

Basis of consolidation

The financial statements consolidate the financial statements of the company and its subsidiary for the 53 weeks ended 9 January 2010.

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 up to a maximum of 25 years. The directors regard 25 years as a reasonable maximum for the estimated useful life of goodwill since 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 9) 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

53 weeks ended 9 January 2010

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.

Stocks

Stock is stated at the lower of cost and net realisable value.

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.

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.

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

3. OPERATING PROFIT

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Operating profit is stated after charging:		
Depreciation and amortisation		
- intangible fixed assets	154	157
- tangible fixed assets	1,117	1,085
Operating lease rentals		
- Access charges payable to Network Rail	11,640	22,971
- Plant and machinery	13,814	11,646
- Land and buildings	6,418	8,136
	<u>11,640</u>	<u>22,971</u>
Fees payable to the company's auditors for the audit of the company's annual accounts	2	2
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	49	49
	<u>51</u>	<u>51</u>

There were no non-audit services provided during the period (2009 same)

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Bank interest	110	540
Other interest	-	11
	<u>110</u>	<u>551</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Other interest	4	-
Loan interest	90	89
Finance lease interest	100	103
	<u>194</u>	<u>192</u>

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

6 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

	53 weeks ended 9 January 2010	52 weeks ended 3 January 2009
	No.	No.
Average number of persons employed (including directors)		
Operational	869	868
Engineering and maintenance	137	134
Administration and support	141	139
	<u>1,147</u>	<u>1,141</u>
	53 weeks ended 9 January 2010	52 weeks ended 3 January 2009
	£'000	£'000
Staff costs during the period (including directors)		
Wages and salaries	34,832	32,701
Social security costs	2,429	2,345
Pension costs – defined benefit scheme	2,460	3,240
Pension costs – personal pension schemes	30	23
	<u>39,751</u>	<u>38,309</u>

The company has no employees (2009 same) and hence has no staff costs (2009 same)

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Corporation tax		
United Kingdom corporation tax at 28% (2009 28 5%) based on the profit for the period	(3,549)	(3,407)
Adjustment in respect of prior periods	47	(47)
	<u>(3,502)</u>	<u>(3,454)</u>
Deferred tax		
Timing differences	20	44
Adjustment in respect of prior periods	72	9
FRS 17 adjustments	18	36
	<u>(3,392)</u>	<u>(3,365)</u>

The current corporation tax charge on profit on ordinary activities is higher (2009 higher) than that resulting from applying the standard rate of corporation tax in the UK of 28% (2009 28 5%)

The differences are explained below

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Profit on ordinary activities before tax	<u>12,096</u>	<u>11,351</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 28 5%)	(3,387)	(3,235)
Effects of		
Expenses not deductible for tax purposes	(143)	(131)
Short term timing differences	3	(8)
Capital allowances in excess of depreciation	(22)	(35)
Adjustment in respect of prior periods	47	(47)
Impact on deferred tax of change in tax rate	-	2
	<u>(3,502)</u>	<u>(3,454)</u>

Movement on deferred taxation balance in the period:

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Opening asset/(liability)	5	(48)
Prior year adjustment	72	9
Current year movement	20	44
	<u>97</u>	<u>5</u>

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

Analysis of deferred tax balance:

	9 January 2010 £'000	3 January 2009 £'000
Capital allowances in excess of depreciation	30	(77)
Short term timing difference	67	82
Deferred tax asset	<u>97</u>	<u>5</u>

8. EQUITY DIVIDENDS

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Equity dividends paid of £4,149,500 per share (2009 £4,084,500)	<u>8,299</u>	<u>8,169</u>

9. INTANGIBLE FIXED ASSETS

Group	Concession costs £'000	Goodwill £'000	Total £'000
Cost			
At 4 January 2009 and 9 January 2010	<u>726</u>	<u>3,190</u>	<u>3,916</u>
Amortisation			
At 4 January 2009	159	698	857
Charge for year	<u>28</u>	<u>126</u>	<u>154</u>
At 9 January 2010	<u>187</u>	<u>824</u>	<u>1,011</u>
Net book value			
At 9 January 2010	<u>539</u>	<u>2,366</u>	<u>2,905</u>
At 3 January 2009	<u>567</u>	<u>2,492</u>	<u>3,059</u>

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS 53 weeks ended 9 January 2010

10. 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 4 January 2009	2,941	154	5,648	2,784	11,527
Additions	-	586	185	166	937
Disposals	-	-	(78)	(22)	(100)
Transfers	208	(728)	230	290	-
At 9 January 2010	3,149	12	5,985	3,218	12,364
Accumulated depreciation					
At 4 January 2009	253	-	1,991	955	3,199
Charge for the year	105	-	669	343	1,117
Disposals	-	-	(77)	(21)	(98)
At 9 January 2010	358	-	2,583	1,277	4,218
Net book value					
At 9 January 2010	2,791	12	3,402	1,941	8,146
At 3 January 2009	2,688	154	3,657	1,829	8,328

The cost of assets held by the group under finance leases at 9 January 2010 was £2,543,000 (2009 - £2,543,000). The accumulated depreciation provided for on those assets at 9 January 2010 was £1,049,000 (2009 - £808,000).

11. INVESTMENTS IN SUBSIDIARY UNDERTAKING

Cost	£
Shares in subsidiary undertaking	
At 4 January 2009 and 9 January 2010	2

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

12. STOCKS

	Group 9 January 2010 £'000	Group 3 January 2009 £'000
Raw materials and consumables	1,102	964
Work in progress	290	362
	1,392	1,326

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

13 DEBTORS

	Group 9 January 2010 £'000	Company 9 January 2010 £'000	Group 3 January 2009 £'000	Company 3 January 2009 £'000
Trade debtors	2,057	-	1,975	-
Amounts owed by subsidiary undertaking	-	580	-	368
VAT	1,050	-	1,550	-
Other debtors	324	-	6,973	-
Prepayments and accrued income	1,758	-	2,244	-
Deferred tax asset (see note 7)	97	-	5	-
	<u>5,286</u>	<u>580</u>	<u>12,747</u>	<u>368</u>

The group trades profitably 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

14. INVESTMENTS

	9 January 2010 £'000	3 January 2009 £'000
Short term deposits and investments	<u>5,500</u>	<u>2,750</u>

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

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 9 January 2010 £'000	Company 9 January 2010 £'000	Group 3 January 2009 £'000	Company 3 January 2009 £'000
Trade creditors	11,951	-	9,325	-
Corporation tax payable	2,036	280	1,825	285
Other creditors	3,004	-	4,462	-
Other taxation and social security	941	300	1,465	83
Accruals and deferred income	3,484	-	2,445	-
Obligations under finance leases	241	-	241	-
Bank loans	151	-	151	-
	<u>21,808</u>	<u>580</u>	<u>19,914</u>	<u>368</u>

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

16. CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR

	Group 9 January 2010 £'000	Group 3 January 2009 £'000
Obligations under finance leases	1,252	1,493
Bank loans	1,654	1,806
	<u>2,906</u>	<u>3,299</u>
 Obligations under finance leases		
Within one year	241	241
Within two to five years	953	953
After five years	299	540
	<u>1,493</u>	<u>1,734</u>
 Loans are repayable as follows		
Within one year	151	151
Within two to five years	606	606
After five years	1,048	1,200
	<u>1,805</u>	<u>1,957</u>

Bank loans are secured on the assets to which they relate

The bank loans bear interest at a fixed rate of 6.6945%

17. CONTINGENT LIABILITY

There is a continuing dispute within the industry between several Train Operating Companies ('TOCs') and the British Transport Police regarding the charging methodology for their Transport Police services. The principal issue relates to changes in the charging basis introduced by British Transport Police with effect from 1 April 2007, which are being disputed by a number of TOCs on the basis that the changes were unlawfully implemented. The dispute is the subject of an ongoing judicial review, the outcome of which remains uncertain.

The financial statements include accrued charges in respect of increased British Transport Police charges from 1 April 2009. However, no accrual has been recorded for the period from 1 April 2007 to 31 March 2009 due to the uncertainty surrounding the outcome of the judicial review. The estimated maximum liability in terms of monies owed to the British Transport Police in relation to this dispute is in the region of £2.1m.

18. CALLED-UP SHARE CAPITAL

	9 January 2010 £	3 January 2009 £
Authorised		
50 ordinary A shares of £1 each	50	50
50 ordinary B shares of £1 each	50	50
	<u>100</u>	<u>100</u>
 Called-up, allotted and fully paid		
1 ordinary A share of £1	1	1
1 ordinary B share of £1	1	1
	<u>2</u>	<u>2</u>

NOTES TO THE ACCOUNTS
53 weeks ended 9 January 2010

19 RESERVES

	Group profit and loss account £'000
As at 3 January 2009	2,357
Profit for the financial period	8,704
Dividends paid (see note 8)	(8,299)
Actuarial gains and losses (net)	(629)
	<hr/>
As at 9 January 2010	2,133
	<hr/>

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 (2009 £nil)

20 RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Profit for the financial period	8,704	7,986
Dividends paid (see note 8)	(8,299)	(8,169)
Other recognised gains and losses relating to the period (net)	(629)	(988)
	<hr/>	<hr/>
Net reduction in shareholders' funds	(224)	(1,171)
Opening shareholders' funds	2,357	3,528
	<hr/>	<hr/>
Closing shareholders' funds	2,133	2,357
	<hr/>	<hr/>

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 £2,754,000 in the period (2009 - £2,661,000). The expected employer contributions for the next financial period are estimated at £2,901,000.

Actuarial Assumptions

The full actuarial valuation at 31 December 2007 was updated to 9 January 2010 and 3 January 2009 by a qualified actuary, using the following assumptions in relation to future experience:

	9 January 2010	3 January 2009	5 January 2008
Discount rate	5.70%	6.40%	5.80%
Rate of increase in salaries	4.00%	3.15%	4.20%
Rate of increase in deferred pensions	3.50%	2.65%	3.20%
Rate of increase in pensions in payment	3.50%	2.65%	3.20%
Inflation assumption	3.50%	2.65%	3.20%
Long term rate of return expected	6.74%	6.36%	7.13%

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

NOTES TO THE ACCOUNTS
53 weeks ended 9 January 2010

21. PENSION ARRANGEMENTS (continued)

The mortality assumptions used were

		9 January 2010	3 January 2009
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

	9 January 2010 Value £'000	3 January 2009 Value £'000	5 January 2008 Value £'000	6 January 2007 Value £'000	7 January 2006 Value £'000
Total market value of assets	81,766	69,802	89,300	81,367	69,132
Present value of scheme liabilities	(120,155)	(79,146)	(96,141)	(86,367)	(83,000)
Members' share of deficit	15,356	3,738	2,736	2,000	5,547
Franchise adjustment	16,487	-	-	-	-
Deficit in scheme	(6,546)	(5,606)	(4,105)	(3,000)	(8,321)
Related deferred tax asset	1,833	1,570	1,149	900	2,496
Net pension liability	<u>(4,713)</u>	<u>(4,036)</u>	<u>(2,956)</u>	<u>(2,100)</u>	<u>(5,825)</u>

Fair Value of assets

The assets in the scheme were

	9 January 2010 Value £'000	3 January 2009 Value £'000	5 January 2008 Value £'000	6 January 2007 Value £'000	7 January 2006 Value £'000
Equities	58,834	49,237	61,640	61,322	50,812
Bonds/Gilts	8,098	6,541	9,590	8,236	9,333
Property	7,008	6,750	8,640	7,989	8,987
Cash and Other	7,826	7,274	9,430	3,820	-
	<u>81,766</u>	<u>69,802</u>	<u>89,300</u>	<u>81,367</u>	<u>69,132</u>

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

21. PENSION ARRANGEMENTS (continued)

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000			
Amounts included within operating profit:					
Current service cost	2,460	3,240			
Brass contributions	262	300			
Total included within operating profit	2,722	3,540			
Amounts included as other finance (income)/costs:					
Expected return on scheme assets	(2,700)	(3,870)			
Interest cost on scheme liabilities	3,060	3,420			
Net finance return	360	(450)			
History of experience gains and losses					
	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	52 weeks ended 7 January 2006 £'000
Difference between actual and expected return on scheme assets					
- <i>monetary amount of closing scheme assets</i>	2,974	(16,954)	(88)	3,523	4,819
Experience gains arising on scheme liabilities					
- <i>monetary amount of closing scheme liabilities</i>	(700)	(400)	(440)	53	(609)
Total pension cost recognised in the Statement of Total Recognised Gains and Losses	(874)	(1,372)	(1,650)	5,576	(170)

MERSEYRAIL SERVICES HOLDING COMPANY LIMITED

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

21 PENSION ARRANGEMENTS (continued)

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Analysis of the change in benefit obligation during the period		
Benefit obligation at beginning of the period	79,146	96,141
Current service cost – Employer (including Brass)	2,722	3,540
Current service cost - Employee	1,640	2,160
Interest cost - Employer	3,060	3,420
Interest cost - Employee	2,040	2,280
Actuarial losses/(gains)	33,891	(25,968)
Benefits paid (including Brass)	(2,344)	(2,427)
Benefit obligation at end of period	<u>120,155</u>	<u>79,146</u>

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Analysis of the change in plan assets during the period		
Fair value of plan assets at beginning of the period	69,802	89,300
Expected return on plan assets – Employer	2,700	3,870
Expected return on plan assets – Employee	1,800	2,580
Actuarial gains/(losses)	4,956	(28,256)
Employer contribution	2,754	2,661
Employer Brass matching contributions	262	300
Member contributions	1,836	1,774
Benefits paid (including Brass)	(2,344)	(2,427)
Fair value of plan assets at end of period	<u>81,766</u>	<u>69,802</u>

22. CAPITAL COMMITMENTS

	9 January 2010 £'000	3 January 2009 £'000
Contracted for but not provided in the financial statements	<u>244</u>	<u>163</u>

NOTES TO THE ACCOUNTS
53 weeks ended 9 January 2010

23. OPERATING LEASE COMMITMENTS

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

	Group Land and buildings 9 January 2010 £'000	Group Other 9 January 2010 £'000	Group Land and buildings 3 January 2009 £'000	Group Other 3 January 2009 £'000
Leases which expire				
Within one year	1,186	34	-	-
Within two to five years	-	7,824	8,180	22,480
After five years	418	11,374	406	11,668
	<u>1,604</u>	<u>19,232</u>	<u>8,586</u>	<u>34,148</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

	Year ended 9 January 2010 £'000	Year ended 3 January 2009 £'000
Serco Group plc		
Other trading transaction income including salary recharges	(39)	(28)
Executive salaries and expense recharges (including non directors)	330	176
Dividends paid and proposed	4,150	4,085
Other trading transaction costs	752	311

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 £49,761 (2009 £21,792). At the period end, the company was owed £nil by Serco Group plc (2009 £28,200).

	Year ended 9 January 2010 £'000	Year ended 3 January 2009 £'000
NV Nederlandse Spoorwegen		
Other trading transaction income including salary recharges	(57)	(8)
Executive salaries and expense recharges (including non directors)	406	251
Insurance costs	-	243
Dividends paid and proposed	4,150	4,085
Other trading transaction costs	-	144

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 was owed £20,502 by NV Nederlandse Spoorwegen (2009 £2,610).

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

NOTES TO THE ACCOUNTS

53 weeks ended 9 January 2010

26 NOTES TO THE CASH FLOW STATEMENT

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Reconciliation of operating profit to operating cash flows		
Operating profit	12,540	10,542
Depreciation of tangible assets	1,117	1,085
Amortisation of intangible assets	154	157
Loss on disposal of fixed assets	2	26
Increase in stocks	(66)	(243)
Decrease/(increase) in debtors	7,553	(4,779)
Increase in creditors	1,683	411
Movement in pension commitments	(294)	579
Net cash inflow from operating activities	<u>22,689</u>	<u>7,778</u>

27 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	53 weeks ended 9 January 2010 £'000	52 weeks ended 3 January 2009 £'000
Increase/(decrease) in cash in the period	9,685	(4,347)
Cash inflow from increase in debt and lease financing	393	392
Change in net funds resulting from cash movements	<u>10,078</u>	<u>(3,955)</u>
Movement in net funds in the period	10,078	(3,955)
Net funds at start of period	455	4,410
Net funds at end of period	<u>10,533</u>	<u>455</u>

28. ANALYSIS OF NET FUNDS

	At 3 January 2009 £'000	Cash flows £'000	At 9 January 2010 £'000
Cash in hand, at bank	1,396	6,935	8,331
Current investments	2,750	2,750	5,500
	<u>4,146</u>	<u>9,685</u>	<u>13,831</u>
Bank loans due within one year	(151)	-	(151)
Bank loans due after more than one year	(1,806)	152	(1,654)
Finance leases	(1,734)	241	(1,493)
	<u>455</u>	<u>10,078</u>	<u>10,533</u>