Merseyrail Electrics 2002 Limited

Report and Financial Statements

3 January 2015

Directors
A Heath
D Booth
J Bowen
D Stretch
J Edwards
J Chaudhry
G Shilston
C Kimberley

Secretary
Serco Corporate Services Limited

Auditors
Ernst & Young LLP
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Strategic report

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

Principal activity and review of the business

In 2003, Merseyrail was awarded a 25-year concession to provide rail services on behalf of Merseytravel, the Merseyside passenger transport executive. This distinguishes Merseyrail from other train operating companies (TOCs), whose contracts average between seven and ten years. For this reason, Merseyrail is 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 our two 50 per cent shareholders, Serco Group plc and Abellio.

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) and a reduced service of 340 train services on Sundays. There are over 300,000 individuals that use our service, with 31 million passenger journeys per annum. Over 60% of journeys are made with daily tickets.

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 five underground stations.

The business operates with a fleet of 59 class 507/508 electric trains which are currently undergoing an extensive refurbishment costing £8.5m.

The directors are satisfied with the performance of the company during the period. Turnover was £150.8m which was an increase of 4.1 per cent on the previous period (52 weeks ended 4 January 2014 – £144.9m).

By the period ending 3 January 2015, the cash balance was over £16.8m (52 weeks ended 4 January 2014 – £17.3m) with no cash (52 weeks ended 4 January 2014 – £nil) on short term investment. The liquidity position has remained strong throughout the period.

During the year, Merseyrail successfully managed £5.7m of capital improvements financed by a combination of Network Rail, Merseytravel and the Department for Transport. These included the construction of a new footbridge and lifts at Birkenhead North station, totalling £2.4m, and a new public address and voice activation system throughout the network, which cost £1.5m.

2014 saw the continuation of the £40m investment programme to refurbish all five underground stations, with work at Hamilton Square station starting in September. This is expected to be complete by the end of March 2015.

The fleet enhancement project, which began in 2012, continued throughout 2014. It comprises a series of reliability and performance improvements and cosmetic enhancements inside and outside the trains and is aimed at extending the useful life of the units. Many of the bigger jobs, such as the installation of new driver cab air-conditioning units are now ready, and most of the carriages have been re-liveried in new eye-catching designs, which have received positive feedback from customers. The internal refresh will start in 2015 and bring a new look to the inside of trains.

The project is costing £8.5m, with funding coming from rolling stock company Angel Trains (£5.5m), through a revised lease agreement with Merseytravel and Merseyrail shareholders, Abellio and Serco (£3m). The work is expected to be complete by quarter 1 of 2016.

Bike & Go, the UK's first major station cycle hire scheme, is available on three rail networks in the country, including Merseyrail. It completed its first full year in 2014, and by the end of the year, 14 locations had opened on Merseyrail, with more scheduled for 2015. Targeting the functional cyclist, Bike & Go enables rail customers to complete the final leg of their trip by bicycle and is focused on the last mile of the passenger journey. Membership costs are low and hire rates, competitive.

Strategic report

Principal activity and review of the business (continued)

July 2014 saw an influx of tourists to the Liverpool city region for the Giant Spectacular and the Open Championship golf tournament in Hoylake. The high volumes of people these events attracted presented some significant challenges for the network, with 500,000 people using Merseyrail over the weekend of the Giants alone. This is a record figure for us, and the three-day event passed off without problems. The Open Championship is another example of a successfully managed project: in order to ensure the safety of everyone using our trains to get to it, we arranged for a temporary bridge to be built especially for the occasion.

We ended the year 2014 with a Public Performance Measure (PPM) of 95.72 per cent, a slight improvement on 2013, which finished at 95.6 per cent. This is Merseyrail's highest ever score, maintaining our position in the top three of the national PPM league.

Merseyrail secured a series of good scores in the most recent National Rail Passenger Survey, autumn 2014, including an overall satisfaction rating of 90 per cent. This is nine percentage points above the national average and four percentage points above the regional average. The score confirms that Merseyrail is valued highly by customers with particular satisfaction evidenced in the survey results for frequency of trains, length of scheduled journey time and overall satisfaction.

Merseyrail's charity of the year was The Clatterbridge Cancer Charity, and over the course of the year, staff and stakeholders raised a record £105,000 for it. Since the start of the concession in 2003, Merseyrail has donated over three quarters of a million pounds to local charities.

Our station adoption programme continues to flourish, and there are now 40 stations in the programme. Ellesmere Port station was awarded the Joan Moss Primary School award at the Cheshire Best Kept stations event, in recognition of the art projects on the station. Maghull won best Rail station in the RHS North West in Bloom awards.

Throughout the year, Merseyrail won over 20 awards in categories ranging from the UK Heartsafe awards to the women's FA awards. Some of the most prestigious prizes include the National Rail Awards Medium Station of the Year awarded to Liverpool South Parkway, the Special Chief Executives Award for contribution to the Liverpool city region at the City of Liverpool Business Awards and two individual winners at the Rail Staff Awards. Merseyrail won in three categories at the North of England Excellence Awards, including Business of the Year. Merseyrail is the only company to have won this award twice.

Principal risks and uncertainties

The 25 year concession grants Merseyrail some stability, enabling us to take a long-term view on investment, and we have no direct rail competitors. However, the economic climate in the region has affected Merseyrail. There is more uncertainty around patronage, and the Merseyrail leadership team are closely monitoring all relevant KPIs to ensure that any necessary remedial action is taken in response to changing economic conditions. Furthermore, to mitigate these risks, we are working with local and national bodies to ensure that services meet or exceed the expectations of our stakeholders.

Approved by the Board on 19 March 2015 and signed on its behalf by:

Jeremy Bowen

Director

19 March 2015

Registered No. 4356933

Directors' report

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

Results and dividends

The profit for the period after taxation amounted to £12.6m (52 weeks ended 4 January 2014 – profit of £11.6m). The directors recommend a final dividend £11.7m (52 weeks ended 4 January 2014 – £13.9m).

Future developments

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. In particular the fleet enhancement project is continuing with the internal refresh commencing in 2015, and also during the year the station investment programme will see the completion of the refurbishment of Hamilton Square and the commencement of the refurbishment of Moorfields station.

Looking further forward Merseytravel are investigating new fleet options and we will be working in partnership with them in this area.

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 current economic uncertainty. Thorough cash management processes are followed. 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.

Directors

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

A Heath	
D Booth	
J Edwards	
J Bowen	
J Chaudhry	
M P Spaargaren	(resigned 31 December 2014)
D Stretch	
K Thomas	(resigned 22 September 2014)
G Shilston	(appointed 19 February 2014)
J Roberts	(resigned 19 February 2014)
C Kimberley	(appointed 30 October 2014)
A Chaplin	(appointed 22 January 2015)

Political and charitable contributions

During the period, the company made charitable donations and sponsorship payments of £61,625 (52 weeks ended 4 January 2014 – £40,033) principally to local charities and groups serving the communities in which the company operates.

Directors' report

Employee involvement and disabled employees

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

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

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Jeremy Bowen
Director
19 March 2015

Statement of directors' responsibilities

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 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 Electrics 2002 Limited

We have audited the financial statements of Merseyrail Electrics 2002 Limited for the 52 weeks ended 3 January 2015 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 3 January 2015 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Merseyrail Electrics 2002 Limited

Matters on which we are required to report by exception

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

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

Gary Harding (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
26 March 2015

Profit and loss account

for the period ended 3 January 2015

	Notes	*52 weeks ended 3 January 2015* *£000*	*52 weeks ended 4 January 2014* *£000*
Turnover	2	150,817	144,853
Cost of sales		(135,151)	(130,192)
Operating profit	3	15,666	14,661
Interest receivable and similar income	6	103	130
Interest payable and similar charges	7	(155)	(157)
Other finance income	21	820	590
Profit on ordinary activities before taxation		16,434	15,224
Tax	8	(3,801)	(3,575)
Profit for the financial period	18	12,633	11,649

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the period ended 3 January 2015

	Note	*52 weeks ended 3 January 2015* *£000*	*52 weeks ended 4 January 2014* *£000*
Profit for the financial period		12,633	11,649
Actuarial gain / (loss) relating to pension scheme	21	855	(1,335)
Deferred tax attributable to actuarial profit /(loss)		(171)	307
Adjustment due to change in deferred tax rate		–	(132)
Total recognised gains and losses for the period		13,317	10,489

Balance sheet

at 3 January 2015

	Notes	*3 January 2015 £000*	*4 January 2014 £000*
Fixed assets			
Intangible assets	10	2,126	2,282
Tangible assets	11	8,801	9,090
Investments	12	–	–
		10,927	11,372
Current assets			
Stocks	13	1,647	1,684
Debtors	14	7,167	8,828
Cash at bank and in hand		16,847	17,309
		25,661	27,821
Creditors: amounts falling due within one year	15	(30,100)	(33,777)
Net current liabilities		(4,439)	(5,956)
Total assets less current liabilities		6,488	5,416
Creditors: amounts falling due after more than one year	16	(1,138)	(1,441)
Net assets before pension liability		5,350	3,975
Pensions	21	(3,268)	(3,523)
Net assets after pension liability		2,082	452
Capital and reserves			
Called-up share capital	17	–	–
Profit and loss account	18	2,082	452
Shareholders' funds	19	2,082	452

The financial statements of Merseyrail Electrics 2002 Limited were approved by the Board of Directors on 19 March 2015

Jeremy Bowen

Director

Notes to the financial statements

at 3 January 2015

1. Accounting policies

Basis of preparation

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

Going concern

The Merseyrail Concession Agreement with Merseyside Passenger Transport Executive (MPTE) 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. 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.

Statement of cash flows

The company is exempt under FRS 1 from including a statement of cash flows in its financial statements as it is a wholly owned subsidiary of Merseyrail Services Holding Company Limited, a company incorporated in the United Kingdom, which has included a group statement of cash flows in its financial statements.

Goodwill

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.

Intangible fixed assets

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 (note 10) are amortised over the life of the concession (25 years).

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

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

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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 Merseyrail trains. Other turnover arises from the provision of ancillary services to external parties.

Notes to the financial statements

at 3 January 2015

1. Accounting policies (continued)

Long term contracts

Contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. Profit on long term contracts is only taken at the stage near enough to completion for that profit to be reasonably certain.

Investments

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

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.

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.

Deferred taxation

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

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to profit and loss account on a straight-line basis over the lease term.

Notes to the financial statements

at 3 January 2015

1. Accounting policies (continued)

Pensions

Pension costs are accounted for in accordance with FRS 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 company, 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.

Notes to the financial statements

at 3 January 2015

3. Operating Profit

This is stated after charging:

		52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
Auditors' remuneration			
Fees payable to the company's auditors for the audit of the company's annual financial statements		41	43
Fees payable to the company's auditors and their associates for other services to the group			
	– the tax services of the company's subsidiaries	–	10
	– other audit related assurance services	6	–
	– other services	–	7
Loss on disposal of fixed assets		–	7
Government grants released		85	67
Depreciation and amortisation	– intangible fixed assets	156	156
	– tangible fixed assets	1,513	1,267
Access charges payable to Network Rail		7,741	13,941
Operating lease rentals	– plant and machinery	12,467	12,368
	– land and buildings	8,241	6,407

4. Directors' remuneration

	52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
Remuneration	496	511
Pension contributions	36	33
	532	544
Remuneration of the highest paid director	263	269

The company contributed £7,757 (52 weeks ended 4 January 2014 – £6,373) to the pension scheme of the highest paid director.

The number of directors who were members of the defined benefit pension scheme at the period end was 1 (52 weeks ended 4 January 2014 – 1).

Notes to the financial statements

at 3 January 2015

5. Staff costs

	52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
Wages and salaries	44,420	43,011
Social security costs	3,315	3,184
Pension costs – defined benefit scheme (note 21)	5,329	4,902
Pension costs – personal pension schemes	21	19
	53,085	51,116

The average monthly number of employees during the period was made up as follows:

	No.	No.
Operational	920	904
Engineering and maintenance	172	178
Administration and support	147	154
	1,239	1,236

6. Interest receivable and similar income

	52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
Bank interest	90	125
Other interest	13	5
	103	130

7. Interest payable and similar charges

	52 weeks ended 3 January 2015 £000	52 weeks ended 4 January 2014 £000
Loan interest	90	90
Finance lease interest	65	67
	155	157

Notes to the financial statements

at 3 January 2015

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	52 weeks ended 3 January 2015	*52 weeks ended 4 January 2014*
	£000	*£000*
Current tax:		
UK corporation tax on the profit for the period	(3,861)	(3,858)
Adjustment in respect of prior periods	36	54
Total current tax (note 8(b))	(3,825)	(3,804)
Deferred tax:		
Origination and reversal of timing differences	23	130
Adjustment in respect of prior periods	(106)	54
Impact on deferred tax of change in tax rate	–	(37)
Pension cost charge in excess of pension relief	107	82
Tax on profit on ordinary activities	(3,801)	(3,575)

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

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 21.47% (52 weeks ended 4 January 2014 – 23.25%). The differences are explained below:

	52 weeks ended 3 January 2015	*52 weeks ended 4 January 2014*
	£000	*£000*
Profit on ordinary activities before tax	16,434	15,224
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.47% (52 weeks ended 4 January 2014 – 23.25%)	(3,528)	(3,539)
Effects of:		
Expenses not deductible for tax purposes	(193)	(109)
Short term timing differences	(113)	(89)
Depreciation in excess of capital allowances	(27)	(121)
Adjustments in respect of prior periods	36	54
Current tax for the period (note 8(a))	(3,825)	(3,804)

Notes to the financial statements

at 3 January 2015

8. Tax (continued)

(c) Deferred tax

	£000
Deferred tax asset:	
At 5 January 2014	1,132
Deferred tax credit in profit and loss account	23
Debited to statement of total recognised gains and losses	(171)
At 3 January 2015	984

	52 weeks ended 3 January 2015	*52 weeks ended 4 January 2014*
	£000	*£000*
Included in debtors (note 14)	167	251
Included in defined benefit pension liability (note 21)	817	881
	984	1,132

Analysis of deferred tax balance

	52 weeks ended 3 January 2015	*52 weeks ended 4 January 2014*
	£000	*£000*
Depreciation in excess of capital allowances	50	132
Short term timing difference	117	119
Pension costs	817	881
Deferred tax asset	984	1,132

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

(d) Factors that may affect future tax charges

In the 2014 Finance Bill the corporation tax rate was reduced to 21% from 1 April 2014 with a further reduction to 20% from 1 April 2015. As at the balance sheet date, the reduction in rate to 20% has been 'substantively enacted' and this has been incorporated into the closing deferred tax balances.

9. Dividends

	3 January 2015	*4 January 2014*
	£000	*£000*
Equity dividends paid of £5,843,500 per share (4 January 2014 – £6,982,500)	11,687	13,965

Notes to the financial statements

at 3 January 2015

10. Intangible fixed assets

Group	*Concession costs £000*	*Goodwill £000*	*Total £000*
Cost:			
At 5 January 2014 and 3 January 2015	726	3,190	3,916
Amortisation:			
At 5 January 2014	303	1,331	1,634
Charge for the period	29	127	156
At 3 January 2015	332	1,458	1,790
Net book value:			
At 3 January 2015	394	1,732	2,126
At 5 January 2014	423	1,859	2,282

11. Tangible fixed assets

	Leasehold land and buildings £000	*Assets in the course of construction £000*	*Plant and machinery £000*	*Fixtures and fittings £000*	*Total £000*
Cost:					
At 5 January 2014	3,150	403	8,819	5,240	17,612
Additions	–	191	196	837	1,224
Disposals	–	–	(154)	(171)	(325)
Transfers	2	(156)	116	38	–
At 3 January 2015	3,152	438	8,977	5,944	18,511
Accumulated depreciation:					
At 5 January 2014	786	–	4,808	2,928	8,522
Charge for the period	104	–	921	488	1,513
Disposals	–	–	(154)	(171)	(325)
At 3 January 2015	890	–	5,575	3,245	9,710
Net book value:					
At 3 January 2015	2,262	438	3,402	2,699	8,801
At 5 January 2014	2,364	403	4,011	2,312	9,090

The cost of assets held by the company under finance leases at 3 January 2015 was £1,863,000 (4 January 2014 – £1,863,000). The accumulated depreciation provided for on those assets at 3 January 2015 was £1,474,000 (4 January 2014 – £1,319,000).

The cost of assets held by the company financed by a government grant at 3 January 2015 was £1,774,000 (4 January 2014 – £1,003,000). The accumulated depreciation provided for on those assets at 3 January 2015 was £308,000 (4 January 2014 – £197,000).

Notes to the financial statements

at 3 January 2015

12. Investments

Investments held as fixed assets

Shares in each of the following companies are held by Merseyrail Electrics 2002 Limited:

Company name	*Capital*	*Proportion held*	*Activities*
ATOC Limited	£0.04	5.00%	Contracting arm of ATOC
Rail Staff Travel Limited	£0.04	5.26%	Manages staff travel in the industry on behalf of ATOC
Rail Settlement Plan Limited	£0.04	5.26%	Operates the income allocation and settlement routines on behalf of ATOC
NRES Limited	£1.00	5.26%	Provides rail related information to the public
Train information Services Limited	£1.00	5.26%	Provides the national rail enquiry services
Nisa Retail Limited	£25.00	0.01%	Buying group of independent retailers

13. Stocks

	3 January 2015	*4 January 2014*
	£000	*£000*
Raw materials and consumables	1,395	1,480
Work in progress	252	204
	1,647	1,684

Notes to the financial statements

at 3 January 2015

14. Debtors

	3 January 2015 £000	4 January 2014 £000
Trade debtors	2,746	4,228
VAT	1,224	2,108
Other debtors	730	219
Prepayments and accrued income	2,300	2,022
Deferred tax asset (note 8(c))	167	251
	7,167	8,828

15. Creditors: amounts falling due within one year

	3 January 2015 £000	4 January 2014 £000
Trade creditors	13,714	9,662
Amounts owed to parent undertaking	830	854
Corporation tax payable	1,976	2,091
Other creditors	5,972	13,502
Other taxation and social security costs	944	1,857
Accruals and deferred income	6,357	5,504
Obligations under finance leases	156	156
Bank loans	151	151
	30,100	33,777

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

	3 January 2015 £000	4 January 2014 £000
Obligations under finance leases	242	394
Bank loans	896	1,047
	1,138	1,441
Obligations under finance leases:		
Within one year (note 15)	156	156
In two to five years	242	394
	398	550
Loans are repayable as follows:		
Within one year (note 15)	151	151
In two to five years	606	606
Over five years	290	441
	1,047	1,198

Notes to the financial statements

at 3 January 2015

16. Creditors: amounts falling due after more than one year (continued)

Bank loans are secured on the assets to which they relate.

The bank loans bear interest at a fixed rate of 6.6945% and are repayable with a quarterly instalment of £60,282 since 11 January 2007.

17. Issued share capital

		3 January 2015		4 January 2014
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £1 each	2	2	2	2

18. Movements on reserves

	Profit and loss account
	£000
At 5 January 2014	452
Profit for the financial period	12,633
Dividends paid (note 9)	(11,687)
Actuarial gains and losses (net of deferred tax)	684
At 3 January 2015	2,082

19. Reconciliation of shareholders' funds

	3 January 2015	*4 January 2014*
	£000	*£000*
Profit for the financial period	12,633	11,649
Dividends paid (note 9)	(11,687)	(13,965)
Other recognised gains and losses relating to the period (net of deferred tax)	684	(1,160)
Net increase/(decrease) in shareholders' funds	1,630	(3,476)
Opening shareholders' funds	452	3,928
Closing shareholders' funds	2,082	452

20. Capital commitments

	3 January 2015	*4 January 2014*
	£000	*£000*
Contracted for but not provided in the financial statements	39	32

Notes to the financial statements

at 3 January 2015

21. Pensions

Pension commitments

The company 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 £3,768,000 in the period (4 January 2014 – £3,732,000). The expected employer contributions for the next financial period are estimated at £3,900,000.

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 with CPI inflation.

A CPI inflation of 2.70% p.a. has been assumed at 3 January 2015. This has been set by making a deduction of 0.7% p.a. to the RPI inflation assumption.

Actuarial assumptions

The full actuarial valuation at 31 December 2013 was updated to 3 January 2015 and 4 January 2014 by a qualified actuary, using the following assumptions in relation to future experience:

	3 January 2015	*4 January 2014*	*5 January 2013*
Discount rate	3.70%	4.70%	4.60%
Rate of increase in salaries	3.50%	3.90%	3.40%
Rate of increase in deferred pensions	2.30%	2.70%	2.20%
Rate of increase in pensions in payment	2.30%	2.70%	2.20%
Inflation assumption	3.00%	3.40%	2.90%
Long term rate of return expected	5.70%	6.20%	5.70%

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

The main mortality assumptions used to determine benefit obligations were:

		3 January 2015	*3 January 2015*	*4 January 2014*	*4 January 2014*
		Table	Multiplier	Table	Multiplier
Male pensioners	Pension under £9,500 pa or pensionable pay under £35,000 pa	S1 normal males heavy	98%	S1 normal males heavy	98%
	Others	S1 normal males	99%	S1 normal males	99%

Male members are segmented into three postcode groups and an adjustment is made to the multipliers accordingly.

Allowance for future improvements in mortality has been made in line with the "core projection" model published by the CMI on 19 June 2009, assuming a long-term improvement rate for the period to 3 January 2015 of 1.25% p.a. (4 January 2014 – 1.25% p.a.)

Notes to the financial statements

at 3 January 2015

21. Pensions (continued)

The net liability of the company is summarised as follows:

	3 January 2015 Value £000	*4 January 2014 Value £000*	*5 January 2013 Value £000*	*7 January 2012 Value £000*	*8 January 2011 Value £000*
Total market value of assets	135,688	119,589	106,208	95,596	92,916
Present value of scheme liabilities	(207,578)	(172,971)	(147,391)	(143,050)	(128,774)
Members' share of deficit	28,756	21,353	16,473	18,982	14,343
Franchise adjustment	39,049	27,625	21,999	24,371	14,156
Deficit in scheme	(4,085)	(4,404)	(2,711)	(4,101)	(7,359)
Related deferred tax asset	817	881	623	1,025	1,987
Net pension liability	(3,268)	(3,523)	(2,088)	(3,076)	(5,372)

Fair value of assets

The assets in the scheme were:

	3 January 2015 %	*3 January 2015 Value £000*	*4 January 2014 %*	*4 January 2014 Value £000*
Equities	61.2	82,994	61.2	73,174
Bonds/Gilts	11.6	15,838	13.5	16,180
Property	10.4	14,105	9.5	11,303
Cash and other	16.8	22,751	15.8	18,932
	100%	135,688	100%	119,589

	3 January 2015 £000	*4 January 2014 £000*
Amounts included within operating profit:		
Current service cost	5,124	4,680
Past service cost	–	–
Brass contributions	205	222
Total included within operating profit	5,329	4,902
Amounts included as other finance (income)/costs:		
Expected return on scheme assets	(4,500)	(3,720)
Interest cost on scheme liabilities	4,980	4,140
Interest on franchise adjustment	(1,300)	(1,010)
Net finance return	(820)	(590)

Notes to the financial statements

at 3 January 2015

21. Pensions (continued)

History of experience gains and losses

	3 January 2015	*4 January 2014*	*5 January 2013*	*7 January 2012*	*8 January 2011*
	£000	*£000*	*£000*	*£000*	*£000*
Difference between actual and expected return on scheme assets	3,970	2,173	841	(3,550)	1,823
Experience (losses) / gains on scheme liabilities	(145)	–	995	(1,599)	1,067
Total pension cost recognised in the statement of total recognised gains and losses	855	(1,335)	1,615	3,874	(389)

The cumulative amount of actuarial gains and losses recognised since 2003 in the statement of total recognised gains and losses is a net gain of £4,051,000 (4 January 2014 – gain of £3,196,000).

	3 January 2015	*4 January 2014*
	£000	*£000*
Analysis of the change in benefit obligation during the period:		
Benefit obligation at beginning of the period	172,971	147,391
Current service cost – Employer (including Brass)	5,329	4,902
Current service cost – Employee	3,416	3,120
Interest cost – Employer	4,980	4,140
Interest cost – Employee	3,320	2,760
Past service costs	–	–
Actuarial loss	22,037	13,564
Benefits paid (including Brass)	(4,475)	(2,906)
Benefit obligation at end of period	207,578	172,971

	3 January 2015	*4 January 2014*
	£000	*£000*
Analysis of the change in plan assets during the period:		
Fair value of plan assets at beginning of the period	119,589	106,208
Expected return on plan assets – Employer	4,500	3,720
Expected return on plan assets – Employee	3,000	2,480
Actuarial gain	6,617	3,621
Employer contribution	3,768	3,732
Employer Brass matching contributions	205	222
Member contributions	2,484	2,512
Benefits paid (including Brass)	(4,475)	(2,906)
Fair value of plan assets at end of period	135,688	119,589

Notes to the financial statements

at 3 January 2015

22. Other financial commitments

At 3 January 2015 the company had annual commitments under non-cancellable operating leases as set out below:

		3 January 2015		*4 January 2014*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	–	88	–	2,975
In two to five years	7,757	12,249	5,833	17
Over five years	345	5,295	420	12,018
	8,102	17,632	6,253	15,010

23. Related party transactions

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

Serco Group plc

	3 January 2015	*4 January 2014*
	£000	*£000*
Other trading transaction income including salary recharges	–	(69)
Executive salaries and expense recharges (including non-directors)	163	237
Dividends paid and proposed	5,844	6,982
Other trading transaction costs	54	254

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 £27,457 (4 January 2014 – £30,509). At the period end, the company was owed £nil by Serco Group plc (4 January 2014 – £27,600).

Notes to the financial statements

at 3 January 2015

23. Related party transactions (continued)

NV Nederlandse Spoorwegen

	3 January 2015	*4 January 2014*
	£000	*£000*
Other trading transaction income including salary recharges	(6)	(18)
Executive salaries and expense recharges (including non-directors)	290	293
Dividends paid and proposed	5,844	6,982
Other trading transaction costs	116	221

All of the above expenses/(income) were payable to/(receivable from) NV Nederlandse Spoorwegen and its subsidiaries which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company. At the period end, the group owed NV Nederlandse Spoorwegen £0 (4 January 2014 – £6,955) At the period end, the company was owed £14,183 by NV Nederlandse Spoorwegen (4 January 2014 – £888).

Northern Rail Limited

	3 January 2015	*4 January 2014*
	£000	*£000*
Other trading transaction income including salary recharges	(764)	(700)

All of the above income was receivable from Northern Rail Limited a related party by virtue of the fact that both Northern Rail Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At the period end, the company was owed £72,675 by Northern Rail Limited (4 January 2014 – £64,441).

24. Ultimate parent undertaking and controlling party

The immediate parent undertaking of Merseyrail Electrics 2002 Limited is Merseyrail Services Holding Company Limited. Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The ultimate and controlling parties of Merseyrail Electrics 2002 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. The parent undertaking of the smallest group, which includes the company and for which group financial statements are prepared is Merseyrail Services Holding Company Limited a company incorporated in the UK. Copies of the financial statement of Merseyrail Services Holding Company Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.