

Company Registration No. 4619954

NORTHERN RAIL LIMITED

Report and Financial Statements

8 January 2011

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NORTHERN RAIL LIMITED

**REPORT AND FINANCIAL STATEMENTS 2010
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NORTHERN RAIL LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Lesley Batty
Ian Bevan
Dominic Booth
Peter van Toor
Jeroen Weimar
Jamie Burles
Matthew Brown
Chris Manning
Stephen Butcher

REGISTERED OFFICE

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

BANKERS

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

SOLICITORS

Denton Wilde Sapte
One Fleet Street
London
EC4M 7WS

AUDITORS

Deloitte LLP
Chartered Accountants
Leeds

NORTHERN RAIL LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 8 January 2011

PRINCIPAL ACTIVITIES

The principal activity of the company is the operation of passenger railway services in the north of England under a Franchise agreement awarded by the then Strategic Rail Authority. The franchise commenced on 12 December 2004 and will operate until September 2013. Northern Rail Holdings Limited, the company's parent company is a joint venture company owned by Serco Group plc and Abellio Transport Holdings BV.

Northern Rail Limited ("Northern") employs around 4,800 people, run 2,500 train services every day, with a portfolio of 462 stations. The Northern operation represents 20% of the total of Britain's national rail network. Operations range from single-track branch lines with very simple track, signalling and station infrastructure, to multi-trafficked high speed and densely used parts of the network.

Northern's train services are operated by a fleet of 294 trains comprising 13 different types of diesel or 25kV AC electric multiple units. These generally operate as two, three or four coach trains, with some peak hour services strengthened to be longer than this and some rural branch lines served by single carriage trains. Northern maintains most of the rolling stock fleet at three large depots at Manchester (Newton Heath), Leeds (Neville Hill) and Newcastle (Heaton).

Northern's operations serve three regions with a combined population of 14.2 million. The North West, North East and Yorkshire and Humberside regions represent 21% of the UK's GDP. Eight city regions provide the powerhouse for economic prosperity across the North. These cities, as well as being large employment centres, have also experienced economic and social regeneration. Northern has a critical role to play in providing accessible transport that can be relied upon for commuting, leisure and business purposes. Northern's services also provide access to and from remote rural and coastal communities, offering an important method of social inclusion for local residents. They provide a sustainable means of travel for the many visitors to tourist locations.

BUSINESS REVIEW

Northern use business planning processes based on the European Foundation for Quality Management (EFQM) to deliver our short and long-term business objectives. This section sets out the significant progress and achievements of 2010, which was the sixth full trading year for Northern. Key achievements included the following -

INITIATIVES

We have made excellent progress in delivering key operational performance targets and were delighted that in May 2010 we were granted an automatic two-year franchise extension from September 2011 to September 2013. In order to achieve a franchise extension we had to meet three performance targets in the year to April (service delivery minutes, cancellations, and capacity), which were agreed with the Department for Transport at the start of the franchise.

When Northern began the Franchise in December 2004 the public performance measure (PPM) moving annual average, which represents the number of trains on time over the previous 12 months was 83.79%. Working with Network Rail, the owner and operator of the rail infrastructure, the moving annual average figure had risen to 91% by the end of 2009. In the first nine periods of 2010 our PPM averaged 93.4% and maintained a moving annual average PPM at over 91% for more than a year.

Northern work closely with Network Rail through our Joint Performance Improvement Plan (JPIP) and continue to focus on improving the reliability and availability of our fleet. This includes a project to provide higher quality information on fleet condition and related issues to engineering staff. The aim is to ensure engineers' attention is focused where the business needs it most and where it will have maximum impact on performance.

Northern have also introduced a new system of 'interactive impact reports', which gives our engineers the specific information they require on the condition of each train as and when they need it. Since the system was introduced there have been improvements in the performance of the train fleet and in the speed of dealing with safety-related reports.

In 2010, Northern have delivered a host of new facilities for our customers that choose to cycle to our stations. Based on the Dutch concept brought to the UK by Abellio, working in partnership with West Yorkshire PTE, Network Rail and Department for Transport, we have created the UK's first CyclePoint in Leeds. The new hub provides secure storage for 300 bicycles, cycle rental, retail and repair facilities and information and access to the Leeds City Region cycle network. In addition to CyclePoint we have enhanced cycling facilities and security at more than 100 stations on routes into Leeds thanks to a £1million award from the Cycling England's Cycling Demonstration TOC Challenge Fund.

NORTHERN RAIL LIMITED

DIRECTORS' REPORT

Finally, we continue to work with the Department for Transport (DfT) to introduce additional carriages to the train fleet between now and 2014. The DfT published its rolling stock plan in January 2008, however implementation was put on hold prior to the general election and the coalition government announced a revised schedule in December 2010. Electrification of the line between Liverpool and Manchester was confirmed in the government statement and we will be working with the DfT to understand how our customers will benefit, it is likely that Northern will receive vehicles from other franchises when new trains are introduced elsewhere in the country.

RECOGNITION

Our activities and initiatives have been commended in a variety of national awards and several of our employees have also been recognised individually for the unique contribution that they make to the industry. The following are of particular note:

The way that Northern worked in partnership with colleagues in the rail industry and local government, providing a vital lifeline for communities in Cumbria following the devastating floods in November 2009, was recognised on several occasions. Along with Network Rail and the various local authorities, we received awards for teamwork at both the National Transport Awards and the National Rail Awards.

Our Community Safety programmes continue to flourish, the Northern Film Challenge won the PR campaign of the year in the Eversholt Rail Business Awards in February, and in 2010 we ran an Engineering Challenge which provided students on engineering courses (14 – 19 years old) with a real life business project to create the ultimate 21st century train carriage.

Northern's performance in occupational health and safety was once again recognised during 2010 by winning two of the largest UK safety awards. These were the Transport Sector Award for the second year and a Gold Award for the third year at the RoSPA (Royal Society for Prevention of Accidents) Awards and the IOSH Best Health and Safety Achievement in Transport and Logistics Award.

During 2010, Northern have also achieved some significant environmental accreditations, including ISO 14001 (environmental management systems) and BS EN 16001 (energy management system) certification. Northern also won the Big Tick Award in the climate change category at the 2010 BiTC Awards for our Environmental Sustainability Strategy, and a Silver rating as our first entry into the BiTC Corporate Social Responsibility Index.

Northern opened its first Eco-Station at Accrington, with an Eco-Station report being completed for use on new infrastructure projects. We have also had 200 smart meters installed across the estate giving accurate electricity and gas consumption figures, which will help Northern achieve better control over the reduction of our Carbon Footprint. A lighting timer project was carried out during 2010, with all stations having a digital 7 day timer fitted to the platform lights and photo sensors to ensure that the lights are only on when necessary. There were also some significant achievements with communications in 2010 with two new environmental governance groups being set up to drive the sustainability strategy forward.

HEALTH AND SAFETY

Northern takes its safety responsibility very seriously and has numerous processes and initiatives to protect its employees and passengers. There is close involvement of Directors and Trade Union Safety Representatives to continually review progress and incidents that could be of concern. One of the many initiatives being pursued includes work with drivers to reduce the number of signals passed at danger (SPADs).

TRADING RESULTS

The Directors are satisfied with the performance of the company during the period. Turnover was £571.9m, which was a decrease of 7% on the previous period (2010: £614.7m). A change in the Control Period (CP4) charging arrangements with Network Rail resulted in a £53.1m reduction both to DfT grant revenue and Network Rail charges. There has been no impact on the operating profit as a result of this change. Operating profit of £37.9m represented an increase of 25% on the previous period (2010: £30.3m).

Cumulative passenger revenue is up 4.5% year on year adjusted for the changes in period length. This has delivered an extra £2.9m net of the revenue share agreement with DfT. Franchise receipts have reduced by £49.2m, due to the reduction in funding required by the DfT following the change in Network Rail charges in Control Period 4.

Other revenue increased by £2.6m due to the strong performance of engineering sales made to other Train Operating Companies using our depots during the year.

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DIRECTORS' REPORT

In the prior year, there was an ongoing dispute within the industry between several Train Operating Companies ("TOCs") and the British Transport Police Association ("BTPA") regarding the charging methodology for their Transport Police Services. The principal issue related to changes in the charging basis introduced by the BTPA with effect from 1 April 2007, which were being disputed by a number of TOCs on the basis that the changes were unlawfully implemented. The dispute was settled on the 12 March 2010, which resulted in a credit to the profit and loss account of £7.72m relating to the settlement of prior period Transport Police services.

Capital investment in the year amounted to £2.1m. This includes the continuation of the installation of ticket barriers, which have now been implemented at Blackpool, Leeds, Manchester Oxford Road and Bradford stations. Station and staff accommodation refurbishments have also been taken out improving the surroundings and services for both customers and employees. There has also been the implementation of various Information Systems solutions, and also the maintenance of current systems.

OUTLOOK

Northern is continuing to achieve good levels of revenue growth, particularly around the urban hubs. It will consider further use of ticket barriers and other revenue protection methods where there is clear evidence of fare evasion.

Commercial opportunities will be carefully assessed and progressed where appropriate. The cost base will continue to be carefully managed.

RISKS AND UNCERTAINTIES

In common with most train operators the main competitor to our business is the car, taxis and bus operators. To mitigate the risks from these pressures, Northern works with stakeholders, shareholders and wider community groups to ensure that Northern services meet and exceed the requirements of our passengers. Train service performance continued to improve during the year with the rail industry measure of performance – PPM at 91.53% for the year to 8th January 2011.

The directors of Northern have reviewed the going concern assumption and are confident that the Business is well placed to trade successfully through the conditions brought about by the economic recession and beyond. In reaching this conclusion, the Directors have performed an analysis of detailed trading and cash flow forecasts that extend beyond the 12 month period of consideration required by the standard. The cash flow forecasts reflect both national and local economic growth factors published by recognised authorities and demonstrate the company's ability to continue to service its debts as they fall due. This is despite the considerable downward sensitivities that have been applied, and hence the net current liabilities position at the balance sheet date is no cause for concern. Key factors considered by the directors also include the franchise end date, which runs until September 2013.

Where possible, Northern will fix costs going forward to achieve certainty. This is achieved through the use of hedge instruments for diesel fuel and longer-term contracts for utilities.

RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES

The company made a profit after taxation of £28,258,000 (2010: £21,172,000).

The directors recommended a final dividend of £8,000,000 (2010: £14,458,000), which was paid on 24 December 2010, together with interim dividends of £3,100,000 which were paid on 30 March 2010, £8,000,000 paid on 29 June 2010 and £3,150,000 paid on 24 September 2010.

DIRECTORS AND THEIR INTERESTS

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

Ian Bevan	
Domonic Booth	
Lesley Batty	
Peter van Toor	
Heidi Mottram	(resigned 26 th February 2010)
Alan Wilson	(resigned 30 th March 2010)
Armajit Kang	(resigned 25 th February 2010)
Rudolf Haket	(resigned 27 th January 2010)
Joanna North	(resigned 5 th March 2010)
Jeroen Weimar	(appointed 8 th March 2010)

NORTHERN RAIL LIMITED

DIRECTORS' REPORT

Jamie Burles	(appointed 8 th February 2010)
Matthew Brown	(appointed 25 th February 2010)
Chris Manning	(appointed 1 st January 2010)
Stephen Butcher	(appointed 1 st March 2010)

No directors had any beneficial interest in the issued share capital of the company or the immediate parent company during the year ended 8th January 2011

CREDITOR PAYMENT POLICY

It is company policy to pay suppliers in accordance with agreed terms and conditions of purchase provided that the supplier complies with all relevant terms and conditions. The policy developed is to pay invoices at the end of the month following the month in which the goods are delivered or the services are performed. The average time taken to pay purchase invoices by the company was 57 days (2010 50 days)

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.

CHARITABLE CONTRIBUTIONS

During the year the company made charitable donations of £52,676 (2010 £11,736), principally relating to local charities serving the communities in which the company operates.

FINANCIAL INSTRUMENTS

The company operates passenger railway services in the UK and, as such, is exposed to movements in fuel prices and related exchange rates. To protect cash flows, the company enters into forward contracts, currently on a rolling monthly basis, to hedge a proportion of its exposures to fuel price and related foreign exchange movements.

AUDITORS

Each of the directors at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director 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 s418 of the Companies Act 2006.

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

Approved by the Board of Directors
and signed on behalf of the Board on 21 April 2011.



Ian Bevan
Director

NORTHERN RAIL LIMITED

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 AUDITOR'S REPORT TO THE MEMBERS OF NORTHERN RAIL LIMITED

We have audited the financial statements of Northern Rail Limited for the period ended 8th January 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25. 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 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 Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 8th January 2011 and of the company'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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year 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 company, 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.



Christopher Powell FCA, For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Leeds, United Kingdom

Dated 26 April 2011

NORTHERN RAIL LIMITED

PROFIT AND LOSS ACCOUNT Period ended 8 January 2011

	Note	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
TURNOVER	2	571,930	614,694
Operating expenditure			
- Restructuring costs	3	(1,102)	(1,673)
- Other operating income	4	7,720	-
- Other operating expenditure		(540,658)	(582,746)
Total operating expenditure	4	(534,040)	(584,419)
OPERATING PROFIT	4	37,890	30,275
Net finance income/(expense)	5	2,280	(347)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		40,170	29,928
Tax on profit on ordinary activities	7	(11,912)	(8,756)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	18	28,258	21,172

All amounts relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

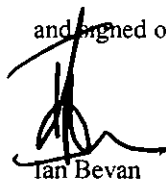
	Note	52 weeks ended 8 January 2011 £'000	53 weeks ended 9 January 2010 £'000
Profit for the financial period		28,258	21,172
Actuarial (loss)/gain relating to pension scheme	20	(2,900)	1,697
UK deferred tax attributable to actuarial loss/(gain)		781	(478)
Total recognised gains and losses relating to the period		26,139	22,391

NORTHERN RAIL LIMITED

BALANCE SHEET 8 January 2011

	Note	2011 £'000	2010 £'000
FIXED ASSETS			
Intangible assets	9	3,599	5,457
Tangible assets	10	12,550	14,676
Investments	11	-	-
		<u>16,149</u>	<u>20,133</u>
CURRENT ASSETS			
Stocks	12	4,294	3,734
Debtors	13	30,168	28,807
Cash at bank and in hand		60,448	49,777
		<u>94,910</u>	<u>82,318</u>
CREDITORS: amounts falling due within one year	15	<u>(101,597)</u>	<u>(97,437)</u>
NET CURRENT LIABILITIES		<u>(6,687)</u>	<u>(15,119)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		9,462	5,014
CREDITORS: amounts falling due after one year	16	<u>(2,303)</u>	<u>(3,881)</u>
NET ASSETS EXCLUDING PENSION LIABILITY		7,159	1,133
PENSION LIABILITY	20	<u>(2,191)</u>	<u>(54)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u>4,968</u>	<u>1,079</u>
CAPITAL AND RESERVES			
Called up share capital	17	-	-
Profit and loss account	18	4,968	1,079
TOTAL SHAREHOLDERS' FUNDS	19	<u>4,968</u>	<u>1,079</u>

These financial statements were approved by the Board of Directors
and signed on behalf of the Board of Directors on 21 April 2011.



Ian Bevan

Director

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 8 January 2011

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below

Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards. The directors of Northern have reviewed the going concern assumption and are confident that the Business is well placed to trade successfully through the conditions brought about by the recent economic recession and beyond. In reaching this conclusion, the Directors have performed an analysis of detailed trading and cash flow forecasts that extend beyond the 12 month period of consideration required by the standard. The cash flow forecasts reflect both national and local economic growth factors published by recognised authorities and demonstrate the company's ability to continue to service its debts as they fall due. This is despite the considerable downward sensitivities that have been applied, and hence the net current liabilities position at the balance sheet date is no cause for concern. Where possible, Northern will fix costs going forward to achieve certainty. This is achieved through the use of hedge instruments for diesel fuel and longer-term contracts for utilities.

Turnover

The company recognises turnover from three sources. Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited, mainly in respect of passenger receipts. Grant income relates to net rail support from the Department for Transport in respect of passenger services and amounts received from Passenger Transport Executives. Grant income is recognised in the profit and loss account in the period to which it relates. Other income arises from the provision of ancillary services to external parties. A change in the Control Period (CP4) charging arrangements with Network Rail resulted in a £53.1m reduction both to DfT grant revenue and Network Rail charges. There has been no impact on the operating profit as a result of this change.

Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise, representing the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term and any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Franchise goodwill was capitalised and written off on a straight line basis over the life of the franchise of 6 ¾ years. Franchise bid costs levied on the company were capitalised and amortised over the life of the franchise of 6 ¾ years. This was extended during 2010 to reflect the extension of the Franchise to September 2013 and amortisation adjusted accordingly.

Tangible fixed assets and depreciation

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

Depreciation is provided to write off the cost less residual value of tangible fixed assets on a straight line basis over the remaining franchise period of 2 ¾ years as appropriate.

Taxation

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

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

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

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

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 8 January 2011

1. ACCOUNTING POLICIES (continued)

Leases

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

Stocks

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

Pension costs

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis. The company's main obligation in respect of the Railway Pension Scheme is to pay contributions as agreed with the scheme actuary and trustees over the franchise term.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A franchise adjustment is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term which the company will not be required to fund, discounted back to present value. On transition of a rail franchise an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax. This intangible asset is subsequently amortised on a straight line basis over the franchise term.

The current service cost is charged to operating profit. The finance cost of liabilities and expected return on assets are shown as a net amount of other finance charges or credits on the face of the Profit and Loss account. The service cost is included as part of staff costs in note 6. The actuarial gain/loss is charged through the Statement of Total Recognised Gains and Losses.

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

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to profit and loss over the useful economic life of the assets concerned.

Cashflow statement

The company is exempt under Financial Reporting Standard 1 from including a cashflow statement in its accounts as it is a wholly owned subsidiary of Northern Rail Holdings Limited, a company incorporated in the United Kingdom, which has included a consolidated cashflow statement in its financial statements.

2. TURNOVER

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

Turnover is analysed as follows:

	2011 £'000	2010 £'000
Passenger income	182,109	177,238
Grant	339,883	390,069
Other	49,938	47,387
	<u>571,930</u>	<u>614,694</u>

3. RESTRUCTURING COSTS

Restructuring costs of £1,102,000 (2010 £1,673,000) were incurred by Northern Rail Limited as a result of restructuring.

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 8 January 2011

4 OPERATING PROFIT

	2011	2010
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets	4,178	3,469
Amortisation of intangible fixed assets	1,858	3,026
Rental income receivable	(1,064)	(869)
Access and related charges payable to Network Rail	125,258	166,971
Operating lease rentals		
- Rolling stock	34,340	35,531
- Property leases	18,660	20,997
- Other	498	262
	<u> </u>	<u> </u>
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditors for the audit of the company's annual accounts	107	95
	<u> </u>	<u> </u>
Total audit fees	107	95
	<u> </u>	<u> </u>
Other services	52	33
	<u> </u>	<u> </u>
Total non-audit fees	52	33
	<u> </u>	<u> </u>
Analysis of operating expenditure in the period:		
Raw materials and consumables	46,535	34,386
Staff costs		
- Wages and salaries	151,119	151,380
- Social security costs	11,337	11,108
- Other pension costs	17,494	14,516
Other external charges	308,137	364,861
Depreciation and other amounts written off tangible and intangible fixed assets	6,036	6,495
Restructuring costs	1,102	1,673
Other operating income – British Transport Police	(7,720)	-
	<u> </u>	<u> </u>
	<u>534,040</u>	<u>584,419</u>

In the note above, the exceptional credit related to an ongoing dispute within the industry between several Train Operating Companies ('TOCs') and the British Transport Police Association (BTPA) regarding the charging methodology for their Transport Police Services. The principal issue related to changes in the charging basis introduced by the BTPA with effect from 1 April 2007 which were being disputed by a number of TOCs on the basis that the changes were unlawfully implemented. The dispute was settled on the 12 March 2010, which resulted in a credit to the profit and loss account of £7.72m relating to the settlement of prior period Transport Police services.

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NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 8 January 2011

5. NET FINANCE INCOME/(EXPENSE)

	2011 £'000	2010 £'000
Bond costs	(333)	(331)
Interest receivable and similar income	193	184
Net return/(charge) on pension scheme (see note 20)	2,420	(200)
	<u>2,280</u>	<u>(347)</u>

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2011 £'000	2010 £'000
Directors' remuneration		
Total directors emoluments for the period (excluding pension)	476	770
Total directors pension contributions	52	41
	<u>528</u>	<u>811</u>

	Number	Number
Number of directors who are members of a defined benefit scheme	<u>3</u>	<u>3</u>

	£'000	£'000
Remuneration of the highest paid director		
Emoluments of the highest paid director (excluding pension)	189	194
Pension costs in respect of the highest paid director	21	24
	<u>210</u>	<u>218</u>

The amount of the accrued pension of the highest paid director at 8 January 2011 was £40,359 (2010 £13,776) The amount of the accrued lump sum of the highest paid director at 8 January 2011 was £30,653 (2010 £8,755)

Dominic Booth, Ruud Haket and Lesley Batty were remunerated through Abellio Transport Holdings Ltd

Peter Van Toor was remunerated through Abellio Transport Holdings BV

Alan Wilson, Armajit Kang, Jeroen Weimar, Matthew Brown and Chris Manning were remunerated through Serco Limited It is not practicable to ascertain what proportion of their emoluments relates to the company

	Number	Number
Average number of persons employed (including directors)		
Operational	3,377	3,473
Engineering and maintenance	778	718
Administration and support	619	561
	<u>4,774</u>	<u>4,752</u>

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 8 January 2011

	2011 £'000	2010 £'000
Staff costs during the year (including directors)		
Wages and salaries	151,119	151,380
Social security costs	11,337	11,108
Pension costs	17,494	14,516
	<u>179,950</u>	<u>177,004</u>
7. TAX ON PROFIT ON ORDINARY ACTIVITIES		
The tax charge comprises	2011 £'000	2010 £'000
Current tax		
United Kingdom corporation tax	12,230	8,579
Adjustment in respect of prior periods	(72)	(117)
Total current tax	<u>12,158</u>	<u>8,462</u>
Deferred tax		
Origination and reversal of timing differences	(314)	(170)
Movement in pension provision	(7)	676
Adjustment in respect of prior periods	75	(212)
Total deferred tax charge	<u>(246)</u>	<u>294</u>
Total tax charge on profit on ordinary activities	<u>11,912</u>	<u>8,756</u>

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

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	<u>40,170</u>	<u>29,928</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2010 28%)	11,247	8,380
Effects of		
Expenses not deductible for tax purposes	412	929
Capital allowances in excess of depreciation	564	68
Movement in short term timing differences	7	(798)
Adjustment in respect of prior periods	(72)	(117)
Current tax charge for the period	<u>12,158</u>	<u>8,462</u>

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 8 January 2011

8. DIVIDENDS

	2011 £'000	2010 £'000
Paid - £5 56 million per ordinary share (2010 £6 94 million per ordinary share)	22,250	27,758

The directors recommended a final dividend of £8,000,000 (2010 £14,458,000), which was paid on 24 December 2010, together with interim dividends of £3,100,000 which were paid on 30 March 2010, £8,000,000 paid on 29 June 2010 and £3,150,000 paid on 24 September 2010

9. INTANGIBLE FIXED ASSETS

Group	Franchise bid costs £'000	Franchise goodwill £'000	Total £'000
Cost			
At 9 January 2010 and 8 January 2011	3,712	17,181	20,893
Amortisation			
At 9 January 2010	2,785	12,651	15,436
Charge for the period	324	1,534	1,858
At 8 January 2011	3,109	14,185	17,294
Net book value			
At 8 January 2011	603	2,996	3,599
At 9 January 2010	927	4,530	5,457

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 8 January 2011

10. TANGIBLE FIXED ASSETS

	Short leasehold buildings £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost				
At 9 January 2010	1,012	22,501	246	23,759
Additions	-	1,949	103	2,052
Transfer	-	246	(246)	-
At 8 January 2011	1,012	24,696	103	25,811
Accumulated depreciation				
At 9 January 2010	603	8,480	-	9,083
Charge for the period	111	4,067	-	4,178
At 8 January 2011	714	12,547	-	13,261
Net book value				
At 8 January 2011	298	12,149	103	12,550
At 9 January 2010	409	14,021	246	14,676

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

11. INVESTMENTS HELD AS FIXED ASSETS

One share in each of the following companies is held by Northern Rail Limited and all were acquired for nil consideration

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

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

12. STOCKS

	2011 £'000	2010 £'000
Raw materials and consumables	4,294	3,734

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

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 8 January 2011

13. DEBTORS

	2011 £'000	2010 £'000
Trade debtors	15 836	13 720
Other debtors	3,637	5,610
Deferred taxation (see note 14)	296	57
Prepayments and accrued income	10,399	9,420
	<u>30,168</u>	<u>28,807</u>

14 DEFERRED TAXATION

The amounts of deferred tax liability recognised are as follows

	£'000
At 9 January 2010	57
Credit to the profit and loss account	239
	<u>296</u>
At 8 January 2011	<u>296</u>

The analysis of the deferred tax liability is as follows

	2011 £'000	2010 £'000
Capital allowances in excess of depreciation	296	57
	<u>296</u>	<u>57</u>

15. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £'000	2010 £'000
Trade creditors	26,876	24,252
Corporation tax	9,497	6,883
Other creditors	4,322	4,602
Taxation and social security	6,999	6,950
Accruals and deferred income	53,303	54,150
Loans payable	600	600
	<u>101,597</u>	<u>97,437</u>

NORTHERN RAIL LIMITED

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

	2011 £'000	2010 £'000
Grants not yet credited to the profit and loss account	1,317	2,244
Other creditors	156	205
Loans payable	830	1,432
	<u>2,303</u>	<u>3,881</u>

17. CALLED UP SHARE CAPITAL

	2011 £	2010 £
Authorised:		
75 'A' ordinary shares of £1 each	75	75
25 'B' ordinary shares of £1 each	25	25
	<u> </u>	<u> </u>
Called up, allotted and fully paid:		
3 'A' ordinary shares of £1 each	3	3
1 'B' ordinary shares of £1 each	1	1
	<u>4</u>	<u>4</u>

'A' ordinary shares of £1 each and B ordinary shares of £1 each carry equal voting rights and rank pari passu in all respects with the exception that directors appointed by 'A' shareholders shall appoint one of their number to be chairman of the Board of Directors. In the case of equality of votes, the chairman shall have a second or casting vote.

18. RESERVES

	Profit and loss account £'000
At 9 January 2010	1,079
Retained profit for the financial period	28,258
Actuarial loss relating to Pension Scheme	(2,900)
UK deferred tax attributable to actuarial loss	781
Dividends	(22,250)
	<u>4,968</u>
At 8 January 2011	<u>4,968</u>

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 8 January 2011

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £'000	2010 £'000
Profit for the financial period	28,258	21,172
Other recognised gains and losses (net)	(2,119)	1,219
Dividends	(22,250)	(27,758)
	<hr/>	<hr/>
Net increase in shareholders' funds	3,889	(5,367)
Opening shareholders' funds	1,079	6,446
	<hr/>	<hr/>
Closing shareholders' funds	<u>4,968</u>	<u>1,079</u>

20. PENSION LIABILITY

The Company operates two sections of the Railways Pension Scheme ("the RPS"). This provides benefits for employees based on final pensionable pay. The members are expected to meet 40% of the cost of the emerging benefits. One section of the Railways Pension scheme relates to the Eastern division (ex Arriva Trains Northern Limited), and the other section relates to the Western division (ex North Western Trains Company Limited). The two sections are described separately below.

The Company's main obligation in respect of the two sections of the RPS is to pay contributions as agreed with the scheme actuary and trustees over the franchise term.

The deficit reflected in the 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. On transition of a rail franchise, an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax. This intangible asset is subsequently amortised on a straight line basis over the franchise term.

The most recent actuarial valuations of the scheme assets and the present value of the defined benefit obligation were carried out at 14 January 2011 by Mercer Human Resources. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit method.

Combined divisions

The following assumptions have been used for both divisions:

	8 January 2011	9 January 2010	3 January 2009
Discount rate	5.40%	5.70%	6.40%
Rate of increase in salaries	3.90%	4.00%	3.15%
Rate of increase in deferred pensions	2.90%	3.50%	2.65%
Rate of increase in pensions in payment	2.90%	3.50%	2.65%
Inflation assumption	3.40%	3.50%	2.65%

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

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 8 January 2011

20 PENSION LIABILITY (continued)

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

Eastern Division:

	Expected rate of return at 8 January 2011	8 January 2011 £'000	Expected rate of return at 9 January 2010	9 January 2010 £'000	Expected rate of return at 3 January 2009	3 January 2009 £'000
Equities	7.95%	167,266	7.90%	152,243	7.35%	127,034
Bonds	5.40%	25,711	4.60%	21,258	5.13%	17,129
Property	6.20%	22,008	6.40%	17,935	5.85%	17,275
Cash and other	0.50%	23,492	0.50%	20,122	3.00%	18,662
Total market value of assets		238,477		211,558		180,100
Present value of scheme liabilities		(333,675)		(319,065)		(210,677)
Deficit in the scheme		(95,198)		(107,507)		(30,577)
Members' share of deficit		38,079		43,003		12,231
Franchise adjustment		55,870		64,504		16,060
Company's share of deficit		(1,249)		-		(2,286)
Related deferred tax asset		337		-		640
Net pension liability		(912)		-		(1,646)

Western Division:

	Expected rate of return at 8 January 2011	8 January 2011 £'000	Expected rate of return at 9 January 2010	9 January 2010 £'000	Expected rate of return at 3 January 2009	3 January 2009 £'000
Equities	7.95%	144,274	7.90%	131,318	7.35%	111,073
Bonds	5.40%	22,079	4.60%	18,172	5.13%	14,865
Property	6.20%	19,541	6.50%	15,937	5.85%	15,350
Cash and other	0.50%	20,267	0.50%	17,637	3.00%	16,168
Total market value of assets		206,161		183,064		157,456
Present value of scheme liabilities		(261,179)		(251,592)		(167,542)
Deficit in the scheme		(55,018)		(68,528)		(10,086)
Members' share of deficit		22,008		27,411		4,034
Franchise adjustment		31,257		41,041		4,142
Company's share of deficit		(1,753)		(76)		(1,910)
Related deferred tax asset		474		22		535
Net pension liability		(1,279)		(54)		(1,375)

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 8 January 2011

20. PENSION LIABILITY (continued)

AMOUNTS INCLUDED WITHIN OPERATING PROFIT

	2011 £'000	2010 £'000
Combined divisions		
Current service cost	17,494	11,902
Total included within operating profit	<u>17,494</u>	<u>11,902</u>

AMOUNTS INCLUDED IN NET FINANCE INCOME

	2011 £'000	2010 £'000
Combined divisions		
Expected return on scheme assets	16,200	13,140
Interest cost on scheme liabilities	(19,800)	(14,640)
Interest on franchise adjustment	6,020	1,300
Net finance return	<u>2,420</u>	<u>(200)</u>

ANALYSIS OF AMOUNT RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2011 £'000	2010 £'000
Combined divisions		
Actual return less expected return on assets	(14,554)	(22,769)
Experience gains and losses on liabilities	(4,601)	3,152
Gains and losses on change in assumptions	(2,383)	101,964
Experience gains and losses on franchise adjustment	24,438	(84,044)
Actuarial loss recognised	<u>2,900</u>	<u>(1,697)</u>

HISTORY OF THE EXPERIENCE GAINS AND LOSSES RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Combined divisions					
Difference between expected and actual returns on scheme assets	14,554	22,779	(136,834)	(1,060)	17,039
Percentage of scheme assets	3%	6%	-41%	0.2%	4%
Experience gains and losses on scheme liabilities	(6,983)	105,116	(112,512)	8,649	9,634
Percentage of scheme liabilities	-1%	18%	-33%	2%	2%
Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment	21,538	82,337	24,322	7,589	26,673
Percentage of scheme liabilities	4%	14%	7%	2%	6%
Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment	2,900	(1,707)	7,374	3,333	6,437

NORTHERN RAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 8 January 2011

20. PENSION LIABILITY (continued)

ANALYSIS OF THE MOVEMENT IN THE SCHEME DEFICIT DURING THE PERIOD

	2011 £'000	2010 £'000
Combined divisions		
Change in benefit obligation		
Benefit obligation at the beginning of the year	(570,657)	(378,219)
Current service cost	(28,574)	(19,222)
Interest cost	(33,000)	(24,400)
Actuarial gains/(losses)	21,377	(159,796)
Benefits paid	16,000	10,980
	<u>(594,854)</u>	<u>(570,657)</u>
Change in plan assets		
Fair value of plan assets at the beginning of the year	394,622	337,556
Expected return on plan assets	27,000	21,900
Actuarial losses	14,554	22,779
Contributions	23,588	22,445
Additional contributions - brass matching	874	922
Benefits paid	(16,000)	(10,980)
	<u>444,638</u>	<u>394,622</u>
Funded status	(150,216)	(176,035)
Unrecognised net actuarial gains	60,087	70,414
Franchise adjustment	87,127	105,546
	<u>(3,002)</u>	<u>(75)</u>
Net amount recognised	(3,002)	(75)
Related deferred tax asset	811	21
	<u>(2,191)</u>	<u>(54)</u>

Cumulative gains since the adoption of FRS17 amount to £14,184,000 (2010 £17,084,000)

21. CONTINGENT LIABILITIES

Northern Rail Limited, as the franchisee, has procured two performance bonds in favour of the Strategic Rail Authority. These bonds took effect from 18th October 2004 for the franchise term and for a period of 7 reporting periods after the end of the franchise.

The initial expiry date of the franchise was 18th September 2011. However, during the year this was extended to 15th September 2013. The performance bond amount as at 8th January 2011 was £29,232,296 (2010 £29,232,296).

In addition Northern Rail Limited, as the franchisee, has procured two season ticket bonds in favour of the Strategic Rail Authority. The bonds are dated 3rd December 2004 and took effect from the franchise commencement date of 12th December 2004. The total season ticket bond value as at 8th January 2011 was £3,074,000 (2010 £2,574,000).

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22 OPERATING LEASE COMMITMENTS

On 4 February 2005, the company signed an agreement with Network Rail Infrastructure Ltd for access to the railway infrastructure. The agreement, which consists of fixed and variable charges, expires in the end of 2010 with a new contract being agreed during 2010. A new contract was signed on 6th January 2010 which took effect from 12th December 2010. The variable charges cover track usage, traction, and EC4T, and are primarily dependent upon train miles run.

The company has contracts which commit it to lease rolling stock from Angel Trains Contracts Limited, West Yorkshire Passenger Transport Executive and Porterbrook Leasing Company Limited.

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

	Property £'000	Rolling stock £'000	Other £'000
Leases which expire			
Within two to five years	19,464	35,109	351
	<u>19,464</u>	<u>35,109</u>	<u>351</u>

23. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions contained in FRS 8 "Related Party Transactions" paragraph 3c not to disclose transactions with fellow group companies.

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

	2011 £'000	2010 £'000
Expense recharges	55	1,466
Interest	176	152
	<u> </u>	<u> </u>

All of the above expenses were payable to 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's immediate parent company. At 8th January 2011, amounts due to Serco Group plc amounted to £2,000 (2010: £157,000).

	2011 £'000	2010 £'000
Executive salaries	132	150
Expense recharge	56	68
Interest	176	152
	<u> </u>	<u> </u>

All of the above expenses were payable to NV Nederlandse Spoorwegen and its subsidiaries, which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company's immediate parent company. At 8th January 2011, amounts due to NV Nederlandse Spoorwegen amounted to £33,000 (2010: £66,000).

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NOTES TO THE FINANCIAL STATEMENTS

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24. IMMEDIATE PARENT COMPANY AND ULTIMATE CONTROLLING PARTIES

The ultimate controlling parties of Northern Rail Limited are NV Nederlandse Spoorwegen and Serco Group plc. These companies each own 50% of the share capital of Northern Rail Holdings Limited under a joint venture agreement. Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands. Copies of the financial statements of Serco Group plc are available from Dolphun House, Windmill Road, Sunbury-on-Thames, Middlesex, TW16 7HT. The immediate parent company of the smallest group, which includes the company and for which group accounts are prepared is Northern Rail Holdings Limited, a company incorporated in the UK. Copies of the financial statements of Northern Rail Holdings Limited are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom.

25. FINANCIAL INSTRUMENTS NOT INCLUDED AT FAIR VALUE

The company operates passenger railway services in the UK and, as such, is exposed to movements in fuel prices and related exchange rates. To protect cash flows, the company enters into commodity swap contracts, currently on a rolling monthly basis, to hedge a proportion of its exposures to fuel price and related foreign exchange movements. Three commodity swap contracts were in place during 2010 between Northern Rail Limited and Calyon, an investment bank.

The first commodity swap contract is cash settled and runs from 1 January 2007 to 15 September 2011. The total volume for the contract is 124,166,400 litres, at a fixed rate of £0.2895 per litre for the term of the contract. Calyon pays a floating rate on the contract. The floating rate is calculated as the daily 0.2% CIF NWE price in USD per tonne converted into litres and then into GBP at the daily spot rate.

The second commodity swap contract is cash settled and runs from 1 October 2010 to 30 September 2011. The total volume for the contract was 14,026,114 litres, at a fixed rate of £0.3970 per litre for the term of the contract. Calyon paid a floating rate on both these contracts. The floating rate was calculated as the daily 0.1% CIF NWE price in USD per tonne converted into litres and then into GBP at the daily spot rate.

The third commodity swap contract is cash settled and runs from 1 October 2011 to 18 September 2013. The total volume for the contract is 74,175,460 litres, at a fixed rate of £0.4296 per litre for the term of the contract. Calyon pays a floating rate on both these contracts. The floating rate is calculated as the daily 0.1% CIF NWE price in USD per tonne converted into litres and then into GBP at the daily spot rate.

The fair value of the fuel hedge was calculated using a discounted cash flow methodology. The forward rate for Gas Oil has been calculated on a monthly basis for the duration of the contract, and was then converted back into GBP using the forward rate.

The fair value of the fuel hedge liability at 8th January 2011 was calculated to be £5,408,120 (2010 £3,276,031).