DB Schenker Rail (UK) Limited

Directors' report and financial statements

For the year ended 31 December 2012

Registered number 02938988

DB Schenker Rail (UK) Limited

Directors' report and financial statements

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DB Schenker Rail (UK) Limited

Directors' report for the year ended 31 December 2012

The directors present their report and the audited financial statements of the company for the year ended 31 December 2012

Principal activities

The principal activities of the company are the haulage of freight by rail and other related services within the UK

Business review and future developments

The company's profit on ordinary activities before taxation for the year is £4 million (2011 £58 million as restated) The company's profit for the year is £10 million (2011 £53 million as restated) Both the level of business and the year end financial position were satisfactory given the economic and operational climate

In the years to 31 December 2011 an accrual of £7 million was made for retirement benefit costs In the year to 31 December 2012 it has been concluded that there was no liability required at that time and therefore this accrual has been released The impact at that time of the prior year adjustment was to increase the prior year profit by £7 million and increase prior year net assets by £7 million

The external commercial environment is expected to remain competitive in the year ahead, however, the directors remain confident that the company will maintain and build on the current level of performance in the future

On the 23rd June 2013 the company entered into an agreement with Etihad Rail Company PJSC to establish the Etihad Rail DB Operations LLC joint venture company The company subscribed to 147 AED 1,000 shares which represent 49% of the authorised and issued share capital of the joint venture

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of DB Schenker Rail (UK) Holdings Limited (formerly English Welsh & Scottish Railway Holdings Limited) and all its subsidiary undertakings (the "DBSR UK group") and are not managed separately The most significant risks to the profitability of the DBSR UK group are

(i) Loss of significant customer contracts,
(ii) Increased employee costs,
(iii) Exposure to foreign exchange rate movements,
(iv) Increased track access and diesel fuel costs,
(v) Loss of access to Network Rail infrastructure, and
(vi) Increased Government regulation

The Directors have strategies to manage and mitigate these risks and remain confident of the continued success of the DBSR UK group

Management of financial risk

The major financial exposures faced by the company are to exchange rate and interest rate movements and the price of diesel fuel

The directors of the DBSR UK group review these risks and approve guidelines covering the use of financial instruments to manage these risks and define the overall risk limits All the company's financial instruments are arranged through the Deutsche Bahn group treasury function and are held for risk management purposes

The company has implemented policies that require appropriate credit checks on potential customers before sales are made

DB Schenker Rail (UK) Limited

Directors' report for the year ended 31 December 2012 *(continued)*

Key performance indicators (KPIs)
The directors of the DBSR UK group manage the group's operations on a divisional basis For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of DB Schenker Rail (UK) Limited

The key performance indicators monitored by the directors for the DBSR UK group include earnings before interest and taxation (EBIT), total revenue, net tonne kilometres, train path kilometres, tonnage and headcount

The development, performance and position of all DBSR UK group companies are reported within the consolidated results of Deutsche Bahn AG, the ultimate parent company The financial statements of Deutsche Bahn AG can be viewed at www db de

Results and dividends
The results for the company show a net profit of £10 million and revenue of £429 million for the year ended 31 December 2012 (2011 profit £53 million, as restated, and revenue of £452 million)

The directors do not recommend the payment of a dividend (2011 £nil)

Directors
The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows

A Thauvette	(Resigned 2 September 2013)
G Spencer	(Appointed 2 September 2013)
A Luebs	

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006 The indemnity was in force throughout the last financial year and is currently in force The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors

Employees
The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate

During the period, employees have been provided with information about the company through newsletters and circulars in which employees have also been encouraged to present their suggestions and views Regular meetings are held between local management and employees to allow a free flow of information

Political and charitable donations
Senior management of the DBSR UK group attend dinners held by both of the main political parties This expenditure of £109 (2011 £4,549) is considered to constitute a political donation No other political donations were, however, incurred (31 December 2011 £nil)

Charitable donations of £150 (31 December 2011 £349) were made, and in addition time and resources were also made available as part of our charitable endeavours

Directors' report for the year ended 31 December 2012 *(continued)*

Land and buildings

The directors believe the freehold and long leasehold land and buildings have a market value materially in excess of the current book value However, a full property valuation on an open market value basis has not been performed and hence any associated excess of market value over current book value cannot be disclosed with reasonable certainty

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 prepared 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 judgements 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,
- 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

Disclosure of information to auditors

For each person who is a director at the time of approval of this report

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

Independent auditors

In accordance with section 487(2) of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, will continue in office

On behalf of the board

A Luebs
Director
27th September 2013

Independent auditors' report to the members of DB Schenker Rail (UK) Limited

We have audited the financial statements of DB Schenker Rail (UK) Limited for the year ended 31 December 2012 which comprise the Profit and loss Account, the Statement of total recognised gains and losses, the Balance sheet, the Reconciliation of movements in shareholders' funds and the related notes 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)

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities set out on page 3 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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 Directors' 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 financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of DB Schenker Rail (UK) Limited *(continued)*

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

Andy Ward (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
27th September 2013

DB Schenker Rail (UK) Limited

Profit and loss account for the year 31 December 2012

	Note	Year to 31 December 2012 £ million	Year to 31 December 2011 as restated £ million
Turnover		**429**	452
Operating costs		**(404)**	(406)
Operating profit before exceptional items		**25**	46
Exceptional items	2	**(25)**	-
Operating profit	4	**-**	46
Profit on sale of fixed assets		**2**	7
Other finance income	7	**2**	5
Profit on ordinary activities before taxation		**4**	58
Tax on profit on ordinary activities	8	**6**	(5)
Profit for the financial year	17	**10**	53

All of the company's activities are continuing

DB Schenker Rail (UK) Limited

Statement of total recognised gains and losses for the year ended 31 December 2012

	Note	**Year to 31 December 2012** *£ million*	Year to 31 December 2011 as restated *£ million*
Profit for the financial year		**10**	53
Decrease in donated asset reserve	17	**(1)**	(1)
Actuarial (loss)/gain on pension scheme	19	**(50)**	1
Movement in deferred tax relating to pension deficit	15	**9**	(2)
Total recognised gains and losses relating to the year		**(32)**	51
Prior year adjustment	3	**7**	-
Total recognised gains and losses since last annual report		**(25)**	51

DB Schenker Rail (UK) Limited
Registered number: 02938988

Balance sheet as at 31 December 2012

	Note	2012	2011 as restated
		£ million	*£ million*
Fixed assets			
Intangible assets	9	**-**	-
Tangible assets	10	**255**	250
		255	250
Current assets			
Stocks	11	**15**	17
Debtors	12	**160**	201
Cash at bank and in hand		**1**	2
		176	220
Creditors: amounts falling due within one year	13	**(140)**	(157)
Net current assets		**36**	63
Total assets less current liabilities		**291**	313
Creditors. amounts falling due after more than one year	14	**(8)**	(7)
Provisions for liabilities	15	**(32)**	(51)
Net assets excluding pension deficit		**251**	255
Pension deficit	19	**(93)**	(65)
Net assets including pension deficit		**158**	190
Capital and reserves			
Called up share capital	16	**19**	19
Share premium account	17	**72**	72
Other reserves	17	**26**	27
Profit and loss account	17	**41**	72
Total shareholders' funds		**158**	190

The financial statements on pages 6 to 25 were approved by the board of directors on 27th September 2013 and were signed on its behalf by

A Luebs
Director

DB Schenker Rail (UK) Limited

Reconciliation of movements in shareholders' funds

	Note	Year to 31 December 2012 *£ million*	Year to 31 December 2011 as restated *£ million*
Profit for the financial year		**10**	53
Decrease in donated asset reserve	17	**(1)**	(1)
Actuarial (loss)/gain on pension scheme	19	**(50)**	1
Movement on deferred tax relating to the pension deficit	15	**9**	(2)
Net change in shareholders' funds		**(32)**	51
Opening shareholders' funds as previously stated		**183**	139
Prior year adjustment	3	**7**	-
Opening shareholders' funds as restated		**190**	139
Closing shareholders' funds		**158**	190

Notes to the financial statements for the year ended 31 December 2012

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation
These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 2006 and applicable accounting standards The principal accounting policies are set out below

The company is exempt from the requirement of Financial Reporting Standard 1 'Cash Flow Statements' (revised 1996) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Deutsche Bahn AG, and its cash flows are included within the consolidated cash flow statement of that company

Under Financial Reporting Standard 8 'Related Parties' paragraph 3(c) the company is exempt from the requirement to disclose transactions with related parties in the Deutsche Bahn AG group as all of the company's voting rights are controlled within the group

Goodwill
The goodwill that arose on the acquisition of the business of Rail Charter Services Limited has been amortised over 10 years, being the period for which the assets acquired had a derogation to operate on the rail network Other goodwill is amortised over 20 years as this is considered to reflect most appropriately its useful economic life

Fixed assets and depreciation
Tangible fixed assets are stated at original cost or valuation less accumulated depreciation and accumulated impairment losses Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recovered

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives from the time assets come into service as follows

Land and buildings	
Freehold buildings	40 years
Leasehold land and buildings	life of lease
Rolling stock	20 to 50 years
Plant, machinery and equipment	3 to 15 years
Infrastructure	10 to 30 years

Rolling stock improvements are depreciated over the remaining life of the relevant asset No depreciation is provided on freehold land Assets in the course of construction are not depreciated

Leases
Leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

Government grants
Capital based government grants are included within deferred income in the balance sheet and credited to trading profit over the estimated useful economic lives of the assets to which they relate Revenue based government grants are credited to trading profit in the period in which the expenditure to which they relate is incurred

1 **Accounting policies** *(continued)*

Stocks
Stocks are stated at the lower of cost and net realisable value Cost is determined using the average weighted cost method Provision is made against slow moving or obsolete inventory on an item by item basis

Pensions and other post-retirement benefits
The company's employees are members of two group wide pension schemes, a defined benefits scheme and a defined contribution scheme

The company's defined benefit scheme operates as a section within the Railways Pension Scheme (RPS) which provides pension benefits throughout the railway industry Under the rules of RPS the cost of accruing benefits is split between the company and employees in a ratio of 60 40 Surpluses or deficits on the scheme attributed to the employer in line with this ratio are recorded in the financial statements of the company

The company recognises and discloses its pension obligations in accordance with the shared cost nature of the scheme as set out above and the measurement and presentational requirements of Financial Reporting Standard 17 'Retirement Benefits' The recognition includes a number of adjustments and estimates in respect of the expected rate of return on assets, the discount rate, inflation assumptions, rate of increase in salaries and life expectancy and the future joint contribution rate, amongst others

For the defined benefit scheme, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit The expected returns on the scheme's liabilities arising from the passage of time are included in other finance income Actuarial gains and losses are recognised in the statement of total recognised gains and losses

As the company is the largest contributing employer of the 'DBSR UK group', and therefore the major sponsoring employer, the full surpluses or deficits of the scheme are disclosed in these financial statements

Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised on the basis of the company's 60 40 split of contributions and presented on the face of the balance sheet net of the related deferred tax

For the defined contribution scheme, the amount recognised in the profit and loss account is equal to the contributions payable to the scheme during the year

Foreign exchange
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contract rate if the transaction is covered by a forward exchange contract Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward exchange contract rate All differences are taken to the profit and loss account except to the extent that they are recoverable from a third party in which case they are recorded as a debtor

1 Accounting policies *(continued)*

Deferred taxation
Deferred tax is recognised in respect of all 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

A net deferred tax asset is recognised 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 against which to recover carried forward tax losses and from which the future reversal of 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

No provision is made for timing differences on revaluation surpluses on fixed assets unless there is a firm commitment to sell the asset in question, nor is any provision raised on gains rolled over in replacement assets

Hedging
Gains and losses on hedging contracts are recognised in the profit and loss account when they are closed out

Provisions
Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

Turnover
Turnover is stated net of value added tax and represents amounts invoiced to third parties and estimates in respect of amounts not invoiced for sales arising in the period

Turnover and operating profit is attributable to the haulage of freight by rail and related ancillary services which wholly arises in the UK Turnover is recognised on the completion of the related service

Donated asset reserve
The donated asset reserve arises when assets are gifted to the company The donated asset reserve is released in line with the depreciation charged on the assets

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2012 *(continued)*

2 Exceptional items

	Year to 31 December 2012 *£ million*	Year to 31 December 2011 *£ million*
Impairment of fixed assets and related stock	42	-
Property provisions	4	-
Onerous lease provision	(1)	-
Redundancy costs	1	-
Release of donated asset reserve	(1)	-
Claim recovered	(5)	-
FRS 17 curtailment gain	(15)	-
	25	-

Impairment of fixed assets and related stock
Due to current and projected operational requirements a number of rolling stock assets are not in use nor expected to be utilised in the future Consequently an impairment review has concluded that there has been a permanent diminution in the carrying value of these assets (£40m) and the stock of spare parts (£2m) held to maintain these assets, resulting in the impairment charge recognised in the year

Property provision
Provision has been made in the year for a number of one off property related liabilities identified

Onerous lease provision
Due to current and projected operational requirements a number of leased rolling stock assets are not in use nor expected to be utilised during the remaining lease term Consequently an onerous lease provision has been created equal to the future operating lease payments on the un-used rolling stock In the year certain leased assets were acquired and the existing onerous lease provision was released Resulting in a net release of onerous lease provisions of £1 million

Redundancy costs
The current economic climate has resulted in a number of headcount savings being either realised or identified during the year As at 31 December 2012 this process is ongoing, but where redundant posts have been identified and communicated a provision has been raised

Claim recovered
In the year to 31 December 2012 a claim against a 3rd party for contamination of a site was settled in the company's favour

Release of Donated Asset Reserve
The donated asset reserve arises when assets are gifted to the company The donated asset reserve is released in line with the depreciation charged on the assets

FRS17 curtailment gain
The curtailment of pension benefits accruing to members due to the application of a 3 year CPI cap to pensionable pay and other measures has resulted in a curtailment gain under FRS 17

The tax effect of the above transactions was to reduce the company's tax charge by £7 million (2011 £nil)

3 Prior year adjustment
In the years to 31 December 2011 an accrual of £7 million was made for retirement benefit costs In the year to 31 December 2012 it has been concluded that there was no liability required and therefore this accrual has been released The impact at that time of the prior year adjustment was to increase the prior year profit by £7 million and increase prior year net assets by £7 million

4 Operating profit

	Year to 31 December 2012 *£ million*	Year to 31 December 2011 *£ million*
Operating profit is stated after (charging)/crediting:		
Depreciation of tangible fixed assets		
- owned	(19)	(20)
Rentals payable under operating leases		
- Land and buildings	(1)	(1)
- plant and machinery	(46)	(53)
Other exceptional items *(note 2)*	(25)	1
Amortisation of Government capital grants	-	1
Management charge to other group companies	3	8
Release of donated asset reserve	1	1
Rents receivable from property	15	14

	Year to 31 December 2012 *£'000*	Year to 31 December 2011 *£'000*
Services provided by the company's auditor		
Fees payable for the audit	200	280
Fees payable for other services	14	114

The audit fee disclosed above relates to all audit services for the company and its fellow DBSR UK group companies

5 Remuneration of directors

	Year to 31 December 2012 *£'000*	Year to 31 December 2011 £'000
Aggregate emoluments	9	72
Sums paid to third parties for directors' services	661	819
	670	891

None of the directors' held share options of the company during the year ended 31 December 2012 (2011 nil) Retirement benefits are accruing to nil (2011 1) directors under a defined benefit scheme

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows

	Year to 31 December 2012 *Number*	Year to 31 December 2011 *Number*
By activity		
Management and operation of rail freight and associated services	2,669	2,744

6 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows

	Year to 31 December 2012 **£ million**	Year to 31 December 2011 as restated *£ million*
Wages and salaries	119	123
Social security costs	10	10
Other pension costs *(note 19)*	14	18
Other staff costs	5	5
	148	156

7 Other finance income/(charges)

	Year to 31 December 2012 **£ million**	Year to 31 December 2011 *£ million*
Expected return on pension scheme assets *(note 19)*	30	35
Interest on pension scheme liabilities *(note 19)*	(28)	(30)
	2	5

8 Tax on profit on ordinary activities

Analysis of charge in period

	Year to 31 December 2012 **£ million**	Year to 31 December 2011 *£ million*
Current tax		
UK corporation tax – current year	5	13
UK corporation tax – prior year	(2)	(5)
	3	8
Deferred tax		
Origination and reversal of timing differences – current year	(6)	-
Origination and reversal of timing differences – prior year	(3)	(3)
Tax on profit on ordinary activities	(6)	5

8 Tax on profit on ordinary activities (continued)

The tax for the period is higher (2011 lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2012 of 24 5% (2011 26 5%) The differences are explained below

	Year to 31 December 2012 *£ million*	Year to 31 December 2011 *£ million*
Profit on ordinary activities before tax	4	51
Profit on ordinary activities before tax multiplied by the effective rate of UK corporation tax of 24 5% (2011 26 5%)	1	14
Effects of		
Capital allowances less than depreciation	8	(1)
Adjustments to tax charge in respect of previous periods	(2)	(5)
Movement on deferred tax on pension liability	(4)	-
Current tax charge for the period	3	8

The standard rate of Corporation Tax in the UK changed from 26% to 24% with effect from 1 April 2012 Accordingly, the company's profits for this accounting year are taxed at an effective rate of 24 5%

The Finance Act 2012 includes legislation reducing the main rate of corporation tax to 23% from 1 April 2013 Changes to the UK corporation tax system set out in the March 2013 Budget statement included proposals to further reduce the main rate of UK corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 These additional rate reductions were not substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements

9 Intangible assets

	Goodwill *£ million*
Gross value	
At 1 January 2012 and **31 December 2012**	1
Accumulated amortisation	
At 1 January 2012 and **31 December 2012**	1
Net book value	
At 31 December 2012	-
At 31 December 2011	-

Notes to the financial statements for the year ended 31 December 2012 *(continued)*

10 Tangible assets

	Land and buildings £ million	Rolling stock £ million	Plant, machinery and equipment £ million	Infra-structure £ million	Assets in course of construction £ million	Total £ million
Cost or valuation						
At 1 January 2012	52	332	113	42	23	562
Additions	-	50	-	-	16	66
Disposals	(1)	(22)	(2)	(1)	-	(26)
Transfers	-	24	-	-	(24)	-
At 31 December 2012	51	384	111	41	15	602
Accumulated depreciation						
At 1 January 2012	20	181	87	24	-	312
Charge for the period	2	11	4	2	-	19
Impairments	-	40	-	-	-	40
On disposals	(1)	(20)	(2)	(1)	-	(24)
At 31 December 2012	21	212	89	25	-	347
Net book value						
At 31 December 2012	30	172	22	16	15	255
At 31 December 2011	32	151	26	18	23	250

Analysis of land and buildings

	2012 *£ million*	2011 *£ million*
Analysis of land and buildings at cost or valuation		
At cost	26	26
At valuation	6	6
	32	32

	2012 *£ million*	2011 *£ million*
The net book value of land and buildings comprises		
Freehold	26	27
Long leasehold	4	5
	30	32

If land and buildings had not been revalued, they would have been included at the following amounts

	2012 *£ million*	2011 *£ million*
Cost	45	45
Aggregate depreciation	(19)	(19)
Net book value	26	26

11 Stocks

Stocks comprise primarily spare parts held for the ongoing maintenance of assets and diesel fuel

12 Debtors

	2012	2011
	£ million	*£ million*
Trade debtors	45	49
Amounts owed by group undertakings	87	125
Other debtors	7	7
Prepayments and accrued income	21	20
	160	201

Group loan balances are unsecured, attract interest at LIBOR-0 5% and are repayable on demand Group trading balances are unsecured, interest free and payable in line with intercompany trading terms and conditions

13 Creditors. amounts falling due within one year

	2012	2011 as restated
	£ million	*£ million*
Trade creditors	45	40
Amounts owed to group undertakings	70	69
Corporation tax payable	4	12
Other taxes and social security	2	16
Accruals and deferred income	17	17
Other creditors	2	3
	140	157

Group loan balances are unsecured, attract interest at LIBOR+0 5% and are repayable on demand Group trading balances are unsecured, interest free and payable in line with intercompany trading terms and conditions

14 Creditors: amounts falling due after more than one year

	2012	2011
	£ million	*£ million*
Deferred income due after more than one year		
Government capital grants	1	1
Other contributions to capital expenditure	4	2
Other deferred income	3	4
	8	7
Comprising of		
Government capital grants		
At 1 January 2012	1	2
Credited to profit and loss account	-	(1)
At 31 December 2012	1	1
Other contributions to capital expenditure		
At 1 January 2012	2	2
Capital contributions received	2	-
At 31 December 2012	4	2

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

	2012 £ million	2011 £ million
Other deferred income		
At 1 January 2012	4	-
Income received in advance	-	4
Credited to profit and loss account	(1)	-
At 31 December 2012	3	4

Other deferred income represents income received from a fellow subsidiary of the Deutsche Bahn AG group in advance of the provision of services

15 Provisions for liabilities

	At 1 January 2012 £ million	**Utilised during the period £ million**	**Unutilised amounts released in the period £ million**	**Provisions created in the period £ million**	**At 31 December 2012 £ million**
Deferred tax provision	33	-	(13)	-	20
Redundancy provision	3	(2)	(1)	2	2
Claims provision	2	(2)	(1)	3	2
Onerous lease provision	10	(5)	(4)	3	4
Other provisions	3	-	(2)	3	4
Total provisions	51	(9)	(21)	11	32

Deferred tax provision

The deferred tax provision arises as a consequence of timing differences between the recognition of certain items for tax compared to their recognition under generally accepted accounting practice An analysis of the impact of these items on the deferred tax provision is provided below

	2012 £ million	2011 £ million
Accelerated capital allowances	20	33

It is anticipated that all existing provisions will be utilised or the circumstances currently requiring provision to be made will no longer exist within the next five years

Deferred tax asset relating to pension deficit

	2012 £ million	2011 £ million
At 1 January	22	24
Deferred tax credited/(charged) to the statement of total recognised gains and losses		
- on actuarial gain	11	-
- change in tax rate	(2)	(2)
Deferred tax charged to the profit and loss account	(4)	-
At 31 December	27	22

15 Provisions for liabilities *(continued)*

The deferred tax asset of £27 million (2011 £22 million) has been recognised in arriving at the pension deficit on the balance sheet

Redundancy provision
The redundancy provision reflects committed costs of future planned redundancies at 31 December 2012

Claims provision
The claims provision represents the anticipated costs of claims made by third parties to the extent they are not recoverable from the company's insurers

Onerous lease provision
The onerous lease provision reflects the difference between future lease payments arising on certain assets and the value of those assets to the business discounted at the company's marginal cost of capital

Other provisions
Other provisions reflects the potential liabilities relating to environmental remediation work, rates and other property provisions

16 Called up share capital

	2012 *£ million*	2011 *£ million*
Authorised		
26,947,932 ordinary shares of £1 each	27	27
Allotted and fully paid		
18,947,932 ordinary shares of £1 each	19	19

17 Reserves

	Capital reserve *£ million*	Donated asset reserve *£ million*	**Other Reserves** ***£ million***	**Share premium account** ***£ million***	**Profit and loss account** ***£ million***
At 1 January 2012 as previously reported	9	18	27	72	65
Prior year adjustment *(note 3)*	-	-	-	-	7
At 1 January 2012 as restated	9	18	27	72	72
Profit for the financial year	-	-	-	-	10
Release from donated asset reserve	-	(1)	(1)	-	-
Actuarial loss on pension scheme	-	-	-	-	(50)
Movement on deferred tax relating to actuarial loss on pension scheme *(note 15)*	-	-	-	-	9
At 31 December 2012	9	17	26	72	41

18 Commitments and contingent liabilities

(i) Capital commitments at the end of the financial year for which no provision has been made

	2012 *£ million*	2011 *£ million*
Contracted	2	-

(ii) There were no commitments at the period end to enter into finance leases starting after the period end (2011 £nil)

(iii) Annual commitments under non-cancellable operating leases for land and buildings and equipment delivered by the period end are as follows

	2012		2011	
	Land and buildings *£ million*	**Plant and machinery** *£ million*	Land and buildings *£ million*	Plant and machinery *£ million*
Operating leases which expire				
Within one year	-	-	-	-
In the second to fifth years inclusive	-	42	-	44
Over five years	1	4	1	8
	1	46	1	52

(iv) Legal and regulatory matters

In the ordinary course of business the company is required to address contractual issues and queries from customers and employees, and periodic queries and investigations from government regulatory bodies, which could potentially result in adverse financial consequences for the company As at 31 December 2012 the matters outstanding, in the opinion of the directors, are not expected to have a materially adverse effect

(v) Government grants

Facilities now operated by the company have previously benefited from the receipt of freight facilities grants from the Scottish Government (totalling £10 4m) A proportion of the grants are potentially repayable if certain environmental benefit conditions (anticipated to arise from the grant investment) are not achieved within defined periods in the future As at 31 December 2012, in the opinion of the Directors, measures are in place to mitigate the risk of a repayment obligation arising

19 Pension scheme

The group's main pension scheme for employees is a final salary defined benefits scheme

As the company is the largest contributing employer, and therefore the major sponsoring employer, the full surpluses or deficits of the scheme attributable to the company are disclosed in these financial statements

The total contribution rate payable under the Railways Pension Scheme (RPS) is normally split in the proportion 60 40 between the company and the members The company reflects its share of the contribution in the financial statements

If a surplus or deficit arises, the provisions in the rules mean that the company and the members benefit from or pay for this respectively in the proportion 60 40

This actuarial valuation has provided the starting point for the calculation of the current position under Financial Reporting Standard 17 The roll forward to 31 December 2012 has been performed by a qualified independent actuary The changes in the amounts recognised in the statement of total recognised gains and losses (STRGL) were

	2012 **£ million**	2011 £ million
Opening cumulative STRGL	(177)	(178)
Actuarial (loss)/gain	(50)	1
Closing cumulative STRGL	(227)	(177)

The fair value of assets in the scheme and the expected rate of return were as follows

	Value at 31 December 2012 £ million	**Expected rate of return as at 31 December 2012**	Value at 31 December 2011 £ million	Expected rate of return as at 31 December 2011
Equities	433 7	6 70%	509 4	6 83%
Bonds-government	110 3	2 70%	48 5	4 58%
Bonds– non-government	110 5	4 50%	50 0	4 58%
Property	63 6	5 70%	63 6	5 83%
Cash	4 4	2 70%	1 8	2 83%
Other	131 0	6 70%	121 0	6 17%
Total	853 5		794 3	

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class The expected returns are set by reference to market indicators, including price inflation, dividend yields, economic growth, yields on gilts and bonds and interest rates

	2012 **£ million**	2011 £ million
Actual return on plan assets (100%)	73	(17)

19 Pension scheme *(continued)*

The most significant financial assumptions behind the Financial Reporting Standard 17 calculations are as follows

	2012	2011
Inflation rate – RPI	2 80%	3 00%
Inflation rate – CPI	2 10%	2 00%
Salary inflation	3 40%	3 70%
Pension growth	2 10%	2 00%
Discount rate	4 40%	5 00%

The mortality assumptions adopted in the actuarial valuations have been amended to assume that pensioners have a longer life expectancy The mortality assumptions used in the valuation of the defined benefit pension liabilities of the group's scheme are summarised in the table below and have been selected to reflect the characteristics and experiences of the Railways Pension Scheme as a whole It is assumed that mortality in retirement will follow a table based on PXA92 (c=2003) mortality tables, including an addition to the liability value for pensioners of 9 2% and for non-pensioners of 14%, to allow for future improvements in life expectancy

	2012	2011
	Years	*Years*
Longevity at age 60 for current pensioners		
- Men	23 4	23 9
- Women	26 1	25 5
Longevity at age 40 for future pensioners		
- Men	25 1	26 3
- Women	27 8	28 0

History of experience gains and losses

	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31Dec 2008
	£ million	*£ million*	*£ million*	*£ million*	*£ million*
Company's share of present value of defined benefit	(632)	(564)	(584)	(577)	(461)
Company's share of value of assets	512	477	494	444	388
Deficit	(120)	(87)	(90)	(133)	(73)
Experience gain/(loss) on scheme plan liabilities	-	(19)	21	(2)	(14)
Difference between the expected and actual return on assets	16	(46)	26	37	(179)

The best estimate of contributions to be paid to the plan by the company in 2013 is £14 million

Notes to the financial statements for the year ended 31 December 2012 *(continued)*

19 Pension scheme *(continued)*

Estimate of the profit and loss figures for the year ending 31 December 2013

	£ million
Employer's service cost (including BRASS)	14
Interest cost	28
Expected return on assets	(29)
Net estimated profit and loss charge	13

The following amounts at 31 December 2012 were measured in accordance with the requirements of Financial Reporting Standard 17

		2012 £ million		2011 £ million
Total market value of assets	854		794	
Less members share of assets	(342)		(317)	
Company's share of assets		512		477
Total present value of scheme liabilities, including member's agreed contribution reductions	(1,054)		(940)	
Less members' share of scheme liabilities	422		376	
Company's share of scheme liabilities		(632)		(564)
Deficit in scheme		(120)		(87)
Related deferred tax asset *(note 15)*		27		22
Net pensions liability		(93)		(65)

Reconciliation of present value of scheme liabilities

	2012 £ million	2011 £ million
At 1 January	564	584
Current service cost	13	18
Interest cost	28	30
Benefits paid	(25)	(18)
Actuarial loss/(gain)	67	(47)
Curtailment (note 2)	(15)	-
Liabilities extinguished on settlements	-	(3)
At 31 December	632	564

Reconciliation of present value of scheme assets

	2012 £ million	2011 £ million
At 1 January	477	494
Contributions by employer	14	14
Expected return on scheme assets	30	35
Benefits paid	(25)	(18)
Actuarial gain/(loss)	16	(46)
Assets distributed on settlements	-	(2)
At 31 December	512	477

Notes to the financial statements for the year ended 31 December 2012 *(continued)*

19 Pension scheme *(continued)*

The amounts recognised in the profit and loss account are as follows

	2012 **£ million**	2011 *£ million*
Current service cost	13	18
Expected return on pension scheme assets	(30)	(35)
Interest cost on pension scheme liabilities	28	30
Curtailment	(15)	-
Total (gain)/charge	(4)	13

In addition, as part of the Railway Pension Scheme, the DBSR UK group operates an additional voluntary contribution scheme, (known as "Brass"), under which all eligible employees can make additional pension contributions Employee contributions up to specific individual limits (as at 10 December 1996) are matched on a pound for pound basis by the company Subsequent increases in employee contributions are not matched

Employer contributions in respect of the year ended 31 December 2012 totalled £631,486 (2011 £711,248) and contributions of £47,230 (2011 £53,696 restated) were to be paid over as at 31 December 2012 Brass holds funds for members that will be used to purchase additional benefits at retirement on a money purchase basis

Implications of the 'Finance Act 2012'

As the Finance Act 2012 was substantively enacted at the balance sheet date, deferred tax balances at 31 December 2012 have been calculated using a tax rate of 23% Further reductions to the main rate are proposed to reduce the rate to 21% by 1 April 2014 and to 20% by 1 April 2015 The overall effect of the further changes from 23% to 20%, if these were applied to the deferred tax balance at 31 December 2012, would be to reduce the deferred tax asset by approximately £3 6 million (being £2 4 million recognised in 2013 and £1 2 million in 2014)

20 Post Balance Sheet Events

On the 23rd June 2013 the company entered into an agreement with Etihad Rail Company PJSC to establish the Etihad Rail DB Operations LLC joint venture company The company subscribed to 147 AED 1,000 shares which represent 49% of the authorised and issued share capital of the joint venture

21 Ultimate parent company and controlling party

The immediate parent company is Boreal & Austral Railfreight Limited

The directors consider that the ultimate controlling party and the smallest and largest group in which the results of the company are consolidated is that headed by Deutsche Bahn AG, which is incorporated in the Federal Republic of Germany The financial statements of Deutsche Bahn AG can be viewed at www db de