DB Cargo (UK) Limited
Annual Report
For the year ended 31 December 2016
Registered number 02938988

DB Cargo (UK) Limited

Annual Report

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Strategic report for the year ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

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

The company's operating loss before exceptional items for the year is £60 million (2015: £34 million loss). Exceptional items for the year totalled to a net expense of £3 million (2015: £84 million net expense). The current year exceptional items include significant cost provisions totalling £43 million in relation to restructuring costs. There are further exceptional items including impairments of assets, site exit costs and onerous lease provisions. Also included within exceptional items are large gains on the defined benefit pension scheme totalling £54 million. The 2015 exceptional items primarily related to the impairment of a number of assets and provisions against onerous leases.

The company's loss before taxation for the year is £66 million (2015: £123 million loss). The company's loss after tax for the financial year is £57 million (2015: £113 million loss). The balance sheet of the company is presented on page 11. Total shareholders' funds at the year ended 31 December 2016 was £88 million (2015: £216 million).

The rail freight industry is experiencing rapid and unprecedented challenges and the company has seen a significant decline in its traditional markets of coal and steel.

Since the first quarter of 2015 the market demand for coal transportation has declined at a much faster rate than the company and its customers in the power generation industry predicted. This has resulted in associated revenues dropping by 85% over the same period, caused by falling gas prices, carbon emission taxes and a strategic shift in the UK Government's energy policy. Revenues from the metals sector have fallen by 35% since 2014, due to a fall in UK domestic steel production and competitive pressures from imported steel.

The market effects described above have resulted in continued operating losses in 2016. In response to this the company announced on 17 October 2016 it was entering into formal consultation with employees and trade union partners on a restructuring programme in order to reshape the business. Aligning the business to the market requirements included the re-basing of operating costs in line with the reduced revenue. More importantly this will allow the company to become more dynamic, flexible, agile and efficient and as a result be a sustainable and profitable business.

As a result of the restructuring there is a planned reduction of 893 roles across the workforce. At year end restructuring provisions of £43 million were recorded, and alongside the employee changes, the assets of the business have been rationalised reflecting the surplus capacity in the business. Impairments of fixed assets and stocks totalling £13 million have been recorded in the year. Furthermore, provision has been made for onerous contractual commitments resulting from the market developments experienced during 2016.

Notwithstanding the above, operational performance in the year has been strong with the company achieving freight performance measure of 85.0% (2015: 86.5%) and train service reliability of 98.0% (2015: 97.5%).

Key business relationships have been strengthened through contract renewals in the year with customers including Day Group, Tata Steel, British Steel, British Gypsum and Pullman. New business with Sita, Ward Brothers, British Gypsum, Abellio Scotrail and Bombardier demonstrates our commitment to investment and growth in the construction, metals, infrastructure and other sectors.

Future Developments
The rail freight industry continues to face challenges as competitive pressure in the market remains strong due to there being surplus assets and resources.

Anticipated growth markets also have increased uncertainty, driven by various factors including constraints on the network, economic slowdown and the result of the Brexit vote. This uncertainty has led to delayed, or in some cases cancelled investment decisions relating to major construction and infrastructure projects. This means some of our construction customers are continuing to review their future demand for the transport of materials.

Our customers and the markets are hugely important to us and we are committed to continuing to invest in these markets, developing innovative solutions and new services through closer relationships. We are focussed on our operational efficiency and delivering our customers' needs. In line with this, we continue to grow our offering of core rail freight and related logistic services. In order to help our business evolve with the changes our industry faces, we are investing further to develop our IT landscape especially with regards to the order to cash process and resource management. This will enhance our customers' experience from ordering to tracking and increasing both functionalities and flexibility altogether.

The business has also begun developing the Cricklewood aggregate terminal in North London to complement the existing Bow aggregates site in East London, which will enable us to better meet the specific needs of our construction customers in and around the London area.

Successful delivery of the restructuring plan and reshaping of the business will be pivotal to the future success of the business. By evolving, realigning cost bases and changing the way the business operates we will strengthen the business and will allow the business to succeed in a highly competitive and rapidly changing market.

Strategy

DB Cargo (UK) Holdings Limited and all its subsidiary undertakings (the "DBC UK group") have set out a clear mission to be the "First choice for rail freight in the UK". The company's activities contribute to this through four strategic pillars as listed below:

i. Profitable Market Leader
ii. Quality & Service Provider
iii. Top Employer
iv. Eco Pioneer

We put our customers at the heart of everything we do, safely delivering our promises on service and quality to the satisfaction of our customers. We are committed to our customers and through the innovative use of our assets, combined with targeted investments, we create progressive new solutions for our customers. We deliver excellence by implementing our customer satisfaction process. This enables us to understand our customers' priorities and expectations, and put plans in action that will meet and exceed them.

We believe that, by working in this way, we will be able to continue to be the market leader. Coupling this with continuous innovation and, by managing our costs responsibly, this will enable us to build sustainable growth and profit.

Employees

Everyone's contribution is key to the business' success. We are performance driven and attract and retain talented people. We engage with and listen to our people and provide an attractive and safe working environment. We invest in training and development to ensure the safety of ourselves, our business and others.

Eco Pioneer

We strive to minimise the impact of our operations on the environment and actively seek innovative ways to continuously improve our eco performance.

Principal risks, uncertainties and mitigations

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 the DBC UK group and are not managed separately. The most significant risks to the profitability of the DBC UK group are:

Loss of existing revenue streams

Due to volatility of the market and increased competition, loss of our current revenue streams is considered a risk. Through our focus on customers in our daily activity we are able to work with them to understand their needs. This also gives us the knowledge we need to seek out new revenue streams in the market.

Management of financial risks

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 DBC UK group regularly 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 AG group treasury function and are held for risk management purposes.

The company policies require appropriate credit checks on potential customers before sales are made.

Increased base costs

Increasing base costs will impact both our profitability and competitiveness. Costs such as diesel fuel, as noted above, are covered using financial instruments to enable the business to manage these risks. Other costs are also monitored as part of the business KPI review to ensure all movements are clearly understood and responded to appropriately.

UK government grants

DBC UK receives Modal Shift Revenue Support (MSRS) funding from the Department for Transport (DfT) to subsidise the cost of moving intermodal and bulk traffic by rail. This is a beneficial scheme to the UK economy and society which helps realise environmental benefits from moving traffic to rail, reduces road congestion and improves road safety. Although the DfT have committed to the MSRS scheme through to 2020, this is at a reduced level of funding for all participants compared to previous years and there remains longer term uncertainty of this grant funding due to continued government funding constraints.

Network Rail track access

DBC UK pays a significant amount to Network Rail for access to the rail network in the form of track access charges. Network Rail's Control Period 5 (CP5) sets continued above-inflation increases in the cost of track access between 2014-19, however the level of charges to be applied from CP6 (2019-24) is not yet fixed. Setting track access charges at a sustainable level is important to ensure rail freight operators can set competitive prices to retain existing business on rail and support further modal shift from road to rail. DBC UK backs the UK government's Rail Freight Strategy (published September 2016) which supports rail freight to achieve its potential, in part through an appropriate level of track access charges.

Occupational health, safety and well-being

We are committed to safety excellence and continue to be at the forefront of industry leading initiatives. Our participation at a number of industry leading groups such as the National Freight Safety Group, Railway Delivery Group and RSSB Health and Well-being Policy Group are endorsements of this, along with our commitment to delivering the "Leading Health and Safety on Britain's Railway" Rail freight Project Charter.

Our commitment is both progressive and innovative in our services and policies, shaping them to support current and future business needs with continuous improvement methodology applied to our OHSAS 18001, ISO 14001:2015 and ISO 9001:2008 accreditations. This is achieved and underpinned by demonstrating positive safety leadership, engaging employees, providing clear communication and sharing best practice across the business.

Safety performance is continually monitored, identifying key trends which influence our occupational health and safety management system and its application. Continuing review with legislation ensures its effectiveness along with audit and compliance reviews to ensure continuous improvement.

Our employees are professionally trained to ensure the appropriate levels of skill exist to meet the demands of our business. Internal communications have regular focus on key health, safety and well-being issues and business leaders are expected to demonstrate commitment to promoting a safe working environment.

Strategic report for the year ended 31 December 2016 (continued)

Key performance indicators (KPIs)

The directors of the DBC 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 appropriate for an understanding of the development, performance or position of the business of DB Cargo (UK) Limited.

The key performance indicators monitored by the directors for the DBC UK group include earnings before interest and taxation (EBIT), total revenue, net tonne kilometres, train path kilometres, tonnage, headcount, employee engagement, lost time accidents and fuel consumption reduction.

The development, performance and position of all DBC 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.

On behalf of the board

A. Rossi
Director
28 June 2017

Directors' report for the year ended 31 December 2016

The directors present their report and the audited financial statements of the company for the year ended 31 December 2016.

Details of future developments and the management of financial risk are included in the Strategic report on page 1.

Dividends
The directors do not recommend the payment of a dividend (2015: £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:

G. Spencer (resigned 23 September 2016)

A. Rossi

H-G. Werner (appointed 1 October 2016)

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 year, 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. This approach ensures that all employees have common awareness in relation to the financial and economic factors that affect the performance of the company.

Political and charitable donations
No political donations were made during the year (2015: £nil).

Charitable donations of £5,200 (2015: £3,376) were made during the year, and in addition time and resources were also made available as part of our charitable endeavours.

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Statement of directors' responsibilities (continued)

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.

The directors 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

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves 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 independent auditors, PricewaterhouseCoopers LLP, will continue in office.

On behalf of the board

A. Rossi
Director
28 June 2017

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

Report on the financial statements

Our opinion
In our opinion, DB Cargo (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss 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.

What we have audited

The financial statements, included within the Annual report (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2016;
- the Profit and loss account and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of DB Cargo (UK) Limited (continued)

Responsibilities for the financial statements and audit

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 5, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.
- We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.
- We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
28 June 2017

Profit and loss account for the year ended 31 December 2016

	Note	**Year to 31 December 2016** *£ million*	Year to 31 December 2015 *£ million*
Turnover	3	**325**	387
Cost of Sales		**(332)**	(375)
Gross (loss)/profit		**(7)**	12
Administrative expenses		**(53)**	(46)
Operating loss before exceptional items		**(60)**	(34)
Exceptional items	4	**(3)**	(84)
Operating loss	6	**(63)**	(118)
Income from investments	7	**3**	2
Interest receivable and similar income	10	**-**	1
Interest payable and similar expenses	11	**(6)**	(8)
Loss before taxation		**(66)**	(123)
Tax on loss	12	**9**	10
Loss for the financial year		**(57)**	(113)

All of the company's activities are continuing.

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalent.

Statement of comprehensive income for the year ended 31 December 2016

	Note	Year to 31 December 2016 £ million	Year to 31 December 2015 £ million
Loss for the financial year		**(57)**	(113)
Other Comprehensive (Expense)/Income			
Items that will not be reclassified subsequently to profit or loss:			
Decrease in donated asset reserve		**(2)**	(1)
Return on pension scheme assets	22	**40**	3
Actuarial (loss)/gain recognised on defined benefit pension schemes	22	**(126)**	77
Deferred taxation on pension	12	**14**	(18)
Items that may be reclassified subsequently to profit or loss:			
Loss on fair value of energy derivatives taken to equity	19	**-**	(1)
Energy derivatives recycled through the profit and loss account	19	**2**	2
Other Comprehensive (Expense)/Income for the financial year net of tax		**(72)**	62
Total Comprehensive expense for the financial year net of tax		**(129)**	(51)

DB Cargo (UK) Limited

Balance sheet as at 31 December 2016

Registered number: 02938988

	Note	2016	2015
		£ million	£ million
Fixed assets			
Intangible assets	13	**-**	-
Tangible assets	14	**187**	184
Investments	15	**138**	-
		325	184
Current assets			
Stocks	17	**15**	12
Debtors	18	**109**	333
Cash at bank and in hand		**2**	2
		126	347
Creditors: amounts falling due within one year	19	**(135)**	(151)
Net current (liabilities)/assets		**(9)**	196
Total assets less current liabilities		**316**	380
Creditors: amounts falling due after more than one year	20	**(5)**	(6)
Provisions for liabilities	21	**(224)**	(158)
Net assets		**87**	216
Capital and reserves			
Called up share capital	23	**19**	19
Share premium account		**72**	72
Other reserves		**21**	21
Profit and loss account		**(25)**	104
Total shareholders' funds		**87**	216

The notes on pages 13 to 36 are an integral part of these financial statements.

The financial statements on pages 9 to 36 were approved by the board of directors on 28 June 2017 and were signed on its behalf by:

A. Rossi
Director

DB Cargo (UK) Limited

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital	Share premium account	Capital reserve	Donated Asset reserve	Cash flow hedge reserve	Profit and loss account	Total shareholders' funds
	£ million	*£ million*	*£ million*	*£ million*	*£ million*	*£ million*	*£ million*
At 1 January 2015	19	72	9	15	(3)	155	267
Loss for the financial year	-	-	-	-	-	(113)	(113)
Other Comprehensive Income/(Expense)	-	-	-	(1)	1	62	62
Total Comprehensive Income/(Expense) for the year	-	-	-	(1)	1	(51)	(51)
At 31 December 2015	19	72	9	14	(2)	104	216
Loss for the financial year	-	-	-	-	-	(57)	(57)
Other Comprehensive Income/(Expense)	-	-	-	(2)	2	(72)	(72)
Total Comprehensive Income/(Expense) for the year	-	-	-	(2)	2	(129)	(129)
At 31 December 2016	**19**	**72**	**9**	**12**	-	**(25)**	**87**

Notes to the financial statements for the year ended 31 December 2016

1. General information

DB Cargo (UK) Limited is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of the registered office is Lakeside Business Park, Carolina Way, Doncaster, South Yorkshire, DN4 5PN.

2. Accounting policies

Basis of preparation

These financial statements have been prepared on the going concern basis in accordance with The Companies Act 2006 as applicable to companies using *Financial Reporting Standard 101 Reduced Disclosure Framework* (FRS 101). They are prepared in accordance with applicable International Financial Reporting Standards, and under the historical cost convention. Accounting policies have been applied consistently.

These financial statements are presented in Sterling and all values are rounded to the nearest million pounds, except where otherwise stated.

The company has taken advantage of the exemption from the requirement to prepare group financial statements by virtue of Section 400 of the Companies Act 2006, as the company is a wholly owned subsidiary. These financial statements therefore present information about DB Cargo (UK) Limited as an individual undertaking and not about its group.

FRS 101 requires that the statement of profit or loss and balance sheet are presented in the format requirements of the Companies Act 2006, rather than the requirements of International Accounting Standard (IAS) 1 - Presentation of Financial Statements.

A summary of the disclosure exemptions adopted for the year ended 31 December 2016 is presented below. Equivalent disclosures for financial instruments and fair value measurement are included in the group consolidated financial statements allowing the exemptions to be applied.

Area	**Disclosure exemption**
Cash flow statements	Complete exemption from preparing a cash flow statement.
Financial instrument disclosures	Exemption from the disclosure requirements of IFRS 7 (Financial Instruments) and related IFRS 13 disclosures.
	Disclosures in respect of management's objectives, policies and processes for managing capital (IAS1.134 to 136).
Related party disclosures	Exemption for related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member.
	Exemption from disclosure of key management personnel compensation.
Comparative information	Exemption from comparative for movements on share capital, tangibles, intangibles and investment property.
Presentation of Financial Statements	Exemption from statement of compliance with IFRS, cash flow information and capital management policy.

2. Accounting policies (continued)

Use of estimates and judgement

The application of the company's accounting policies requires management to make judgement, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made, however, the nature of estimation means that actual outcomes could differ from those estimates.

The following identifies significant areas where management's judgements and estimates have the most significant effect on amounts recognised in the financial statements.

Defined benefit schemes

As detailed later in this note, under the rules of the Railway Pension Scheme (RPS) the cost of accruing benefits is split in the ratio 60:40 between the company and employees. The surpluses or deficits on the scheme are attributed on the 60:40 basis and the company's share recorded in the financial statements.

As disclosed in note 4, a net gain of £48 million has been recorded in relation to a plan amendment, which results from the free provision of advice, from an Independent Financial Advisor, to members of the scheme who may consider transferring their benefits to a defined contribution scheme following Government budget changes. An estimated level of take up of the advice and level of future transfers by members formed the basis of the calculation.

Operating leases

The company has entered into commercial property leases as lessee to obtain the use of property plant and equipment. The classification of such leases as operating or finance leases requires the company to determine, based upon an evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

Taxation

Management's judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Pension and other post-employment benefits

The costs of defined benefit pension plans are determined using actuarial valuations to measure pension and other post-employment benefit costs, assets and obligations and the company employs qualified actuaries to assist in the evaluation. The actuarial valuation involves making assumptions regarding discount rates, expected long-term rate of return on plan assets, compensation and pre-retirement benefit increases, and inflation rates, as well as demographic factors such as employee turnover, retirement and mortality rates.

Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty and the criteria used in determining the estimates are described in the retirement benefit schemes note (note 22).

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the assets recoverable amount in order to determine the extent of the impairment loss.

Annual impairment tests for intangible assets with indefinite useful lives are based upon the future cash flows forecast by management for the following five years or other periods if it is considered appropriate.

2. Accounting policies (continued)

Revenue recognition

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

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

Interest income
Revenue is recognised as interest accrues using the effective interest method.

Rental income
Rental income, mainly from the sub-letting of premises, is recognised on a straight-line basis over the term of the lease and is included within turnover.

Intangible assets
Intangible assets are carried at historical cost less amortisation and any impairment. Amortisation is provided by the company to write off the cost less the estimated residual value of intangible fixed assets by equal instalments over their estimated useful economic lives from the time assets come into service as follows:

Software	3 years

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:

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.

Investment property
Investment property, which is property that generates rental income, is valued at cost. Property interests held under operating leases are not recognised as investment properties. All investment property is valued at cost and is depreciated in line with the company's policy on fixed asset depreciation.

Leases
Costs in respect of operating leases and the rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

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.

2. Accounting policies (continued)

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.

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.

Trade and other debtors
Trade debtors, which generally have 30 – 90 day terms, are recognised and carried at the lower of their original invoice value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Cash at bank and in hand
Cash and short term deposits in the balance sheet comprise of cash at bank and short term deposits with original maturity of 3 months or less.

Income taxes
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantially enacted on the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the statement of profit or loss.

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.

2. Accounting policies (continued)

Derivative financial instruments and hedging

Recognition of derivative financial instruments
At the point at which the contract is concluded, derivative financial instruments are recognized as a financial asset or a financial liability in the balance sheet. Derivative financial instruments are initially and subsequently measured at fair value. The treatment of changes in the fair value depends on the type of the hedged underlying. At the point at which the contract is taken out, derivative financial instruments are generally classified as a hedging instrument (a) for hedging the fair value of certain assets or liabilities recognized in the balance sheet (fair value hedge) or (b) for hedging the cash flows arising from a contractual obligation or an expected transaction (cash flow hedge).

(a) Fair value hedges

The purpose of fair value hedges is to provide protection against changes in the value of balance sheet items. In these cases, the hedge as well as the hedged risk content of the underlying are recognized with their present value. Changes in value are recognised in the profit and loss account.

DB Cargo (UK) Limited does not have any fair value hedges as of the balance sheet date.

(b) Cash flow hedges

Cash flow hedges are used to provide protection against fluctuations in the cash flows of financial assets or liabilities or anticipated transactions. When future cash flows are hedged, the hedging instruments are also recognized with their fair value. Changes in value are initially recognized in shareholders' equity with no impact on the profit and loss account, and are only recognized in the profit and loss account at the point at which the corresponding losses or profits from the underlying transaction have an impact on the profit and loss account or the transactions expire.

Financial assets
Financial assets are recognised when the company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss or as loans and receivables, as appropriate. The company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Financial assets are carried in the balance sheet at fair value with gains or losses recognised in the statement of profit or loss.

Financial liabilities
Financial liabilities are recognised when the company becomes party to the contracts that give rise to them and are classified as financial liabilities at fair value through profit or loss.

Derecognition of financial assets and liabilities
A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

2. Accounting policies (continued)

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.

If the amount is material and is expected that the settlement of the obligation is more than one year or after the normal operating cycle of the business, the expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Restructuring costs

A provision for restructuring arises when costs are expected to be incurred and amounts are expected to be paid to redundant employees as a result of a restructuring plan by the company. Restructuring provision is recorded as a component of operating expenses. The effect of the time value of money is not material and therefore the provisions are not discounted.

Government grant provision

Facilities now operated by the company have previously benefited from the receipt of freight facilities grants from the Scottish Government. 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. The directors assess the proportion potentially repayable and a provision is created as appropriate.

Claims provisions

The claims provision represents the anticipated costs of claims made by third parties to the extent that 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.

Exceptional items

The company presents as exceptional items those material items of income and expenditure which, because of their nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

Pensions

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 IAS 19. 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 comprehensive income.

2. Accounting policies (continued)

Pensions (continued)

As the company is the largest contributing employer of the DBC 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.

3. Turnover

Revenues included in the Profit and loss account are analysed as follows.

	2016	2015
	£ million	*£ million*
Turnover	**317**	379
Rental income	**8**	8
	325	387
Income from investments (see note 7)	**3**	2
Interest (see note 10)	**-**	1
Total	**328**	390

Turnover is attributable to a single class of business, i.e. the haulage of freight by rail and related ancillary services, which arises wholly within the UK.

4. Exceptional items

	2016	2015
	£ million	*£ million*
Restructuring costs	**43**	7
Impairment of tangible fixed assets	**12**	50
Onerous lease provision	**4**	20
Impairment of stocks	**1**	10
Net gain on defined benefit pension scheme plan amendment (see note 22)	**(48)**	-
Curtailment gain from defined benefit pension scheme (see note 22)	**(6)**	(1)
Government grant provision	**(1)**	(2)
(Profit)/loss on sale of fixed assets (see note 5)	**(1)**	1
Release of donated asset reserve	**(1)**	(1)
	3	84

Restructuring costs

In response to the significant market changes the company announced and commenced a restructuring programme resulting in a number of headcount savings being either realised or identified during the year. As at 31 December 2016 this process is ongoing but where redundant posts have been identified and communicated, a provision has been recorded.

Additionally as part of the restructuring programme a number of sites have been identified that will be exited. For these sites a provision has been made at year end in relation to the costs associated with exiting these specific sites.

4. Exceptional items (continued)

Impairment of tangible fixed assets

Following a review by the business of its future operational requirements a number of assets were revalued to their estimated fair value less cost of disposal. The estimated fair value was based on management's experience and judgement. The classification of the impaired assets is disclosed in note 14.

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 surplus rolling stock that is not expected to be used.

In December 2016 the company entered into a transaction to purchase a number of rolling stock assets that were held under an operating lease. Upon purchase of these assets the lease was terminated and the associated onerous lease provisions were released.

Impairment of stocks

In line with the impairment of assets related spare parts have been written down to their estimated fair value to the business.

Net gain on defined benefit pension scheme plan amendment

During the year the company following recent government changes to pension rules made available free Independent Financial Advisor (IFA) advice to members who were considering transferring their benefits to a defined contribution scheme following Government budget changes. The option and provision of free IFA advice for future retiring members was communicated to all active members of the scheme during the year which has resulted in a plan amendment gain of £51 million (see note 22) and associated advisor costs provision of £3 million.

Curtailment gain from defined benefit pension scheme

As a result of the redundancies announced in the current and prior year a curtailment gain has resulted under IAS 19.

Government grant provision

Facilities now operated by the company have previously benefited from the receipt of freight facilities grants from the Scottish Government, totalling £10.4 million. 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.

In the prior year the directors assessed the proportion potentially repayable and held a year end provision of £3.2 million. In the current year the provision has been re-assessed by the directors and the result of this is to reduce the provision by £1.4 million (2015: reduction of £1.9 million). This leaves a closing provision of £1.8 million at 2016 year end.

Release of donated asset reserve

The donated asset reserve arose when assets are gifted to the company, and is released in line with the depreciation charged on the assets.

The tax effect of all the above exceptional items was to reduce the company's tax charge by £9 million (2015: £7 million).

5. Profit/(loss) on sale of fixed assets

	2016	2015
	£ million	*£ million*
Consideration		
Other asset sales	**8**	1
	8	1
Net Book Value		
Other asset sales	**(7)**	(2)
	(7)	(2)
Profit/(loss) on sale of tangible assets	**1**	(1)

6. Operating Loss

Operating loss is stated after charging/(crediting):

	2016	2015
	£ million	*£ million*
Cost of stock recognised as an expense	**62**	72
Write down of stocks to net realisable value	**-**	1
Restructuring Costs (see note 4)	**58**	7
Gain on defined benefit pension scheme plan amendment (see note 4)	**(48)**	-
Curtailment gain from defined benefit pension scheme (see note 4)	**(6)**	(1)
Other exceptional items (see note 4)	**-**	(2)
(Profit)/loss on sale of fixed assets (see note 5)	**(1)**	1
Depreciation of fully owned tangible assets	**18**	21
Operating lease rentals - plant and machinery	**44**	44
land and buildings	**5**	5
Loss on foreign exchange	**1**	1
Management charge to other group companies	**(2)**	(3)
Rental income (see note 3)	**(8)**	(8)
Direct operating expenses arising from investment property	**1**	1

Services provided by the company auditors

During the year the company obtained the following services from the company's auditors on behalf of the company and fellow subsidiary companies of the DBC UK group.

	2016	2015
	£'000	*£'000*
Fees payable to the company's auditors and its assocaites for the audit of the annual financial statements of the company and fellow subsidiary companies of the DBC UK group	**243**	228
Fees payable to the company's auditors and their associates in respect of:		
- Taxation advisory services	**-**	29
- All other assurance services	**12**	22
	255	279

7. Income from investments

	2016	2015
	£'million	*£'million*
Partnership fee	**2**	2
Dividend	**1**	-
	3	2

8. Remuneration of directors

	2016	2015
	£'000	*£'000*
Aggregate emoluments	**270**	301
Sums paid to related parties for directors' services	**337**	251
	607	552

None of the directors held share options of the company during the year ended 31 December 2016 (2015: £nil).

Retirement benefits are accruing to 1 (2015: 1) director under a defined benefit scheme.

9. Staff numbers and costs

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

	2016	2015
	No.	No.
By activity		
Management and operation of rail freight and associated services	**2,547**	2,823

The aggregate payroll costs of these employees were as follows:

	2016	2015
	£ million	*£ million*
Wages and salaries	**121**	131
Social security costs	**12**	11
Other pension costs	**17**	22
	150	164

Included in the pension costs are £16,196,000 (2015: £21,323,000) in respect of defined benefit schemes and £483,000 (2015: £566,000) in respect of defined contribution schemes.

Where employees of other group companies were providing services to the company their associated payroll costs were recharged. In addition to the above aggregate payroll costs there were also the amounts below recharged to the company.

	2016	2015
	£ million	*£ million*
Intercompany recharges	**9**	5

10. Interest receivable and similar income

	2016	2015
	£ million	*£ million*
Interest receivable from other group undertakings	-	1

11. Interest payable and similar charges

	2016	2015
	£ million	*£ million*
Net Interest on pension scheme (note 22)	5	7
Interest payable to other group undertakings	1	1
	6	8

12. Taxation on loss

a) Tax credited in the profit and loss account	**2016**	2015
	£ million	*£ million*
Current income tax:		
UK corporation tax - current year credit	-	(9)
Adjustments in respect of prior years	**8**	14
	8	5
Deferred taxation		
Origination and reversal of temporary differences	**(10)**	(16)
Adjustments in respect of prior years	**(7)**	1
	(17)	(15)
Taxation credit on profit	**(9)**	(10)

b) Tax relating to items charged or credited to other comprehensive income	**2016**	2015
	£ million	*£ million*
Current income tax	-	-
Deferred tax		
Actuarial (losses)/gains on defined pension plans	**(15)**	14
Change in tax rates	**1**	4
Tax (credit)/charge in the statement of other comprehensive income	**(14)**	18

The tax for the year is higher (2015: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2016 of 20% (2015: 20.25%). The differences are explained below.

	2016	2015
	£ million	*£ million*
Loss before taxation	**(66)**	(123)
Loss multiplied by standard rate of corporation taxation in the UK of 20% (2015: 20.25%)	**(13)**	(25)
Effects of:		
Adjustments in respect of prior years	**1**	15
Change in tax rates	**3**	-
Total taxation charge for the year	**(9)**	(10)

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated tax loss for the year.

The UK corporation tax rate change from 20% to 19%, substantively enacted on 26 October 2015, is effective from 1 April 2017, and a further change from 19% to 17%, substantively enacted on 6 September 2016, is effective from 1 April 2020. Deferred tax balances at the year end have been measured at the rate at which timing differences are expected to reverse.

13. Intangible assets

	Goodwill	Software	Total
	£ million	*£ million*	*£ million*
Cost			
31 December 2015 and 31 December 2016	1	23	24
Accumulated amortisation			
31 December 2015 and 31 December 2016	1	23	24
Net book value			
31 December 2015 and 31 December 2016	-	-	-

On 31 December 2015 the total goodwill carrying value of £0.2 million was fully impaired and written down to £nil after carrying out an impairment review.

14. Tangible fixed assets

	Land and buildings	Rolling stock	Plant, machinery and equipment	Infra-structure	Assets in course of construction	Investment Property	Total
	£ million	*£ million*	*£ million*	*£ million*	*£ million*	*£ million*	*£ million*
Cost or valuation							
At 1 January 2016	31	400	77	34	19	18	579
Additions	-		-	-	38	-	38
Disposals	(3)	(26)	-	-	-	-	(29)
Transfers	3	42	2	-	(47)	-	-
Provision	-	-	-	-	-	-	-
At 31 December 2016	31	416	79	34	10	18	588
Accumulated depreciation							
At 1 January 2016	18	271	63	34	-	9	395
Charge for the year	1	15	2	-	-	-	18
Impairment	-	12	-	-	-	-	12
Impairment reversal	-	(1)	-	(1)	-	-	(2)
Disposals	(3)	(19)	-	-	-	-	(22)
At 31 December 2016	16	278	65	33	-	9	401
Net book value							
At 31 December 2016	**15**	**138**	**14**	**1**	**10**	**9**	**187**
At 31 December 2015	13	129	14	-	19	9	184

The net book value of land and buildings (including investment properties) comprises	**2016** *£ million*	2015 *£ million*
Freehold	**21**	19
Long leasehold	**3**	3
	24	22

15. Investments

	Value of investments in subsidiaries *£ million*
Cost and net book value	
At 1 January 2016	-
Acquisitions	138
Disposals	-
At 31 December 2016	**138**

Changes in the values of investments

On 14 January 2016 the company acquired 100% of the ordinary shares Locomotive 6667 Limited, a company registered in England and Wales, for consideration of £2. A further share was issued by Locomotive 6667 Limited which was acquired by the company for a premium of £138,361,299. The total consideration paid is included the balance above. The directors believe that the carrying values of the investments are supported by their underlying assets.

The company has an investment of £25,000 (2015: £25,000) in Etihad Rail PJSC, a joint venture which is incorporated in the United Arab Emirates. The investment represents a 49% share in the company (2015: 49%).

The company received partnership fee income of £2,011,000 in the year (2015: £1,794,700) and a dividend of £657,979 (2015: £385,794). These are disclosed separately as per note 7.

Related undertakings	Country of registration or incorporation	Principal Activity	Class and percentage of shares held
Locomotive 6667 Limited	England & Wales	Holding company	100% £1 Ordinary

The above undertaking is a private company limited by shares and is registered at Lakeside Business Park, Carolina Way, Doncaster, South Yorkshire, DN4 5PN.

16. Related party transactions

The company has not disclosed transactions with other wholly owned group companies, as it has taken advantage of the exemption conferred by Paragraph 8(k) of Financial Reporting Standard No. 101.

During the year the company entered into transactions, in the ordinary course of business, with companies which are not wholly owned by the Deutsche Bahn AG group. Transactions entered into, and trading balances outstanding at 31 December are as follows:

Related party (Relationship between companies)	Year	Sales to related party	Other income from related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
		£million	£million	£million	£million	£million
Transfesa	**2016**	**2**	**-**			
(fellow group undertaking)	2015	1	1	-	-	-
Locomotive Operating Leasing Partnership	**2016**			**29**		**9**
(fellow group undertaking)	2015	-	-	7	-	9
Etihad Rail PJSC	**2016**		**2**			
(joint venture)	2015	-	2	-	-	-

There is no provision for doubtful debts against any intercompany debts, and no bad debts have been written off during the year.

Terms and conditions – sales and purchases between related parties are on an 'arm's length' basis. Outstanding balances with entities other than subsidiaries are unsecured, interest free and settlement is expected within 60 days.

17. Stocks

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

	2016	2015
	£ million	*£ million*
Diesel fuel	**1**	1
Spare parts	**14**	11
	15	12

18. Debtors

a) Debtors due within one year

	2016	2015
	£ million	*£ million*
Trade debtors	**33**	37
Cash Pooling account	**19**	114
Group relief receivable	**-**	10
Corporation tax debtor	**2**	1
Amounts owed from group undertakings	**17**	17
Other debtors	**2**	-
Prepayments and accrued income	**14**	16
	87	195

Trade debtors are stated after provisions for doubtful debts of £nil (2015: £40,000).

The company has an agreement for both domestic and foreign currency cash pooling with Deutsche Bahn AG. Under the terms of the agreement, balances within the company's bank accounts are acquired by Deutsche Bahn AG through the following procedures:

- If the relevant bank accounts have a positive balance, the balance will be transferred to the cash pooling account; and
- If the relevant bank accounts have an overdrawn balance, the balance will be settled through a correspondent transfer from the cash pool account.

The cash pooling account is maintained by Deutsche Bahn AG and subsequent to the monthly pooling adjustments, the company's bank accounts will have a nil balance.

The interest rate applied on the cash pooling account on positive balances is GBP overnight LIBOR -0.25%.

Amounts owed from group undertakings are unsecured, interest free and payable in line with intercompany trading terms and conditions.

b) Other financial assets

	2016	2015
	£ million	*£ million*
Loans to Group companies	**-**	138

In the prior year the company provided a non-interest bearing loan of £138,361,300, payable in three months to a fellow subsidiary of the DBC UK group. This balance was fully repaid on 14 January 2016.

18. Debtors (continued)

c) Deferred tax asset

Deferred tax is calculated in full on temporary differences under the liability method, using a tax rate of 17% (2015: 18%).

The deferred tax asset included in the company balance sheet is as follows:

	2016	2015
	£ million	*£ million*
Accelerated capital allowances	**4**	-
Other timing differences	**18**	-
	22	-

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.

Movement on deferred tax

The movement for the year in the net deferred tax account is as shown below.

	Losses	Accelerated capital allowances	Other timing differences	Total
	£million	*£million*	*£million*	*£million*
At 1 January 2016	-	(3)	(1)	(4)
Credit to profit and loss account	18	7	1	26
At 31 December 2016	**18**	**4**	-	**22**

19. Creditors and other payables falling due within one year

a) Creditors: amounts falling due within one year

	2016	2015
	£ million	*£ million*
Trade creditors	**32**	34
Amounts owed to group undertakings	**62**	74
Other taxes and social security costs	**3**	12
Accruals and deferred income	**37**	27
Other creditors	**1**	2
	135	149

Amounts owed to group undertakings are unsecured, interest free and payable in line with intercompany trading terms and conditions.

b) Other Financial Liabilities: amounts falling due within one year

	2016	2015
	£ million	*£ million*
Forward currency contract liabilities		
At 1 January	**2**	-
Transfer from long term creditor	-	3
Loss on changes in fair value	-	1
Credited to profit and loss account	**(2)**	(2)
At 31 December	-	2

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

a) Deferred income

	2016	2015
	£ million	*£ million*
Government capital grants	**1**	1
Other contributions to capital expenditure	**3**	3
Other deferred income	**1**	2
	5	6
Comprising of:		
Government capital grants		
At 31 January and 31 December - amounts due after more than one year	**1**	1
Other contributions to capital expenditure		
At 1 January	**3**	3
Credited to profit and loss account	**-**	-
At 31 December - amounts due after more than one year	**3**	3
Other deferred income		
At 1 January	**2**	3
Credited to profit and loss account	**(1)**	(1)
At 31 December - amounts due after more than one year	**1**	2

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

b) Other Financial Liabilities: amounts falling due after more than one year

	£ million	*£ million*
Forward currency contract liabilities		
At 1 January	-	3
Loss on changes in fair value	-	-
Transfer to short term creditor	-	(3)
At 31 December	-	-

21. Provisions

a) Provisions for liabilities

	Restructuring	Government grant	Claims	Onerous lease	Other	Total
	£ million	*£ million*	*£ million*	*£ million*	*£ million*	*£ million*
At 1 January 2016	5	3	2	29	3	42
Arising during the year	43	-	4	7	4	58
Released during the year	-	(1)	(1)	(4)	-	(6)
Utilised during the year	(5)	-	(2)	(5)	(3)	(15)
At 31 December 2016	**43**	**2**	**3**	**27**	**4**	**79**
Of which						
Current portion	43	-	2	7	4	56
non-current portion	-	2	1	20	-	23
Total	**43**	**2**	**3**	**27**	**4**	**79**
Expected outflow of resources						
within one year	43	-	2	7	4	56
between two and five years	-	2	1	8	-	11
over five years	-	-	-	12	-	12
Total	**43**	**2**	**3**	**27**	**4**	**79**

Restructuring provision
The restructuring provision reflects committed costs of future planned redundancies and related site exit costs at 31 December 2016. This has been disclosed as an exceptional item in the year (see note 4).

Government grant provision
Facilities now operated by the company have previously benefited from the receipt of freight facilities grants from the Scottish Government, totalling £10.4 million. 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. The directors have assessed the proportion potentially repayable and a provision of £1.8 million as at 31 December 2016 has been recognised (31 December 2015: £3.2 million). For current year movement in provision refer to note 4.

Claims
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
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
Other provisions reflect the potential liabilities relating to environmental remediation work, rates and other property provisions.

21. Provisions (continued)

b) Retirement benefit schemes

	2016 £ million	2015 £ million
Net pension deficit (see note 22)	**145**	112

c) Deferred tax liability

Deferred tax is calculated in full on temporary differences under the liability method, using a tax rate of 17% (2015: 18%).

The deferred tax liability included in the company balance sheet is as follows:

	2016 £ million	2015 £ million
Accelerated capital allowances	-	3
Other timing differences	-	1
	-	4

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.

Movement on deferred tax
The movement for the year in the net deferred tax account is shown in note 18 of these accounts.

Deferred tax relating to pension deficit

	2016 £ million	2015 £ million
At 1 January	**24**	40
Deferrred tax credited/(charged) to the statement of other comprehensive income		
- on actuarial gains and losses	**15**	(14)
- change in tax rate	**(1)**	(4)
Deferred tax (charged)/credited to the profit and loss account	**(8)**	2
At 31 December	**30**	24

The deferred tax asset of £30 million (2015: £24 million) has been recognised in arriving at the pension deficit on the balance sheet.

22. Retirement benefit schemes
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.

22. Retirement benefit schemes (continued)

The 31 December 2013 triennial actuarial valuation of the DB Cargo UK section of the pension scheme was completed during 2014. As a result of the valuation, the sponsoring employees along with the trustees of the scheme elected to make additional contributions to the scheme. In addition a cap has been placed on pensionable pay increases for three years, to 30 June 2018. This cap will either be CPI or pay increase agreed, whichever is the lower. A cap on the level of pensionable pay of RPI for the period 1 July 2018 to 30 June 2021 will then follow.

These actions are intended to eliminate the deficit by June 2030.

This actuarial valuation has provided the starting point for the calculation of the current position under IAS 19. The roll forward to 31 December 2016 has been performed by a qualified independent actuary.

Plan asset allocation

As at 31 December 2016, the scheme assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. Plan assets did not include any shares of the company's parent or of any related parties, nor any property occupied by the company, its parent company or any related parties.

The fair value and percentage of scheme assets were as follows:

	2016		2015	
	£ million	***Percentage***	*£ million*	*Percentage*
Equity	**533**	*47.8%*	475	*46.0%*
Private equity	**112**	*10.1%*	108	*10.5%*
Interest bearing securities	**439**	*39.4%*	416	*40.3%*
Property	**29**	*2.6%*	30	*2.9%*
Other	**2**	*0.1%*	3	*0.3%*
Total	**1,115**	***100.0%***	1,032	*100.0%*

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

	2016	2015
	£ million	*£ million*
Actual return on plan assets (100%)	**105**	39

Principal assumptions and risks

Pension costs are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The projected unit method is an accrued benefits valuations method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

The principal weighted-average actuarial assumptions used for all schemes as at the balance sheet date are as follows:

	2016	2015
Inflation rate - RPI	**3.30%**	3.10%
Inflation rate - CPI	**2.30%**	2.10%
Salary inflation	**4.00%**	3.80%
Pension growth	**2.30%**	2.10%
Discount rate	**2.80%**	3.70%

22. Retirement benefit schemes (continued)

	2016	2015
	Years	Years
Longevity at age 65		
- Men	**20.0**	20.9
- Women	**22.0**	22.8
Longevity at age 60		
- Men	**25.0**	25.4
- Women	**27.0**	27.5

The UK discount rate is based on published indices for 15 year AA bonds. Outlying items in the market population are ignored. The expected rate of returns on bonds is a weighted average reflecting the mix of government, index-linked and corporate bonds held by the pension funds. Property returns are based on published indices and reflect longer-term performance. The assumptions for inflation and for increases in pensions are based on the yield gap between long-term index-linked and long-term fixed interest gilt securities.

Mortality rates are based on PXA92(c=2003) mortality tables adjusted to reflect recent experience in the scheme and projected improvements in life expectancy assumed to continue to 2020 with minimum improvement thereafter.

The future obligations are based upon assumptions, the principle assumptions are listed above, and as such there are risks associated with changes in the values associated with these assumptions. The table below indicates the effects from a change in the assumptions, all other actuarial assumptions remaining unchanged:

	Change in assumption	Net defined liability 2016 *£ million*
Discount rate	+1%	1,164
	-1%	1,702
inflation rate	+1%	1,700
	-1%	1,161
Compensation increase	+0.5%	1,427
Pension increase	+0.5%	1,526
Life expectancy	+1 year	1,444

22. Retirement benefit schemes (continued)

Amounts recognised in primary statements

Analysis of amount recognised in the Balance sheet

	2016	2015
	£ million	*£ million*
Total market value of assets	**1,115**	1,032
Less members share of assets	**(446)**	(413)
Company's share of assets	**669**	619
Total present value of scheme liabilities including members agreed contribution reduction	**(1,406)**	(1,259)
Less members share of scheme liabilities	**562**	504
Company's share of scheme liabilities	**(844)**	(755)
Company's share of scheme deficit	**(175)**	(136)
Related tax asset (note 21)	**30**	24
Net pension liability	**(145)**	(112)

Reconciliation of present value of scheme defined benefit obligation

	2016	2015
	£ million	*£ million*
At 1 January	**755**	806
Current service cost	**18**	22
Interest cost	**28**	27
Benefits paid	**(26)**	(22)
Actuarial gain from changes in demographic assumptions	**(32)**	-
Actuarial loss/(gain) from changes in experience	**-**	(52)
Actuarial loss/(gain) from changes in financial assumptions	**158**	(25)
Curtailment gain (see note 4)	**(6)**	(1)
Plan Amendment (see note 4)	**(51)**	-
At 31 December	**844**	755

Reconciliation of present value of scheme assets
Changes in the fair value of plan assets are analysed as follows:

	2016	2015
	£ million	*£ million*
At 1 January	**619**	604
Contributions by employer	**14**	15
Interest income	**23**	20
Expected return on scheme assets	**40**	3
Benefits paid	**(26)**	(22)
Administration expenses	**(1)**	(1)
Fair value as at 31 December	**669**	619

22. Retirement benefit schemes (continued)

Analysis of amount credited/(charged) to the profit and loss account
The amounts recognised in the statement of profit or loss and in the statement of comprehensive income for the year are analysed as follows:

a. Analysis of amount charged to operating profit

	2016	2015
	£ million	*£ million*
Current service cost	**(18)**	(22)
Curtailment gain	**6**	1
Administration expenses	**(1)**	(1)
Plan Amendment	**51**	-
Total gain/(loss) credited/(charged) to operating profit	**38**	(22)

b. Analysis of the amount credited/(charged) to interest

	2016	2015
	£ million	*£ million*
Interest on pension scheme assets	**23**	20
Interest on pension liabilities	**(28)**	(27)
Net return shown in interest payable and similar charges– (note 11)	**(5)**	(7)

Analysis of amount recognised in other comprehensive income

	2016	2015
	£ million	*£ million*
Actuarial (loss)/gain on scheme liabilities	**(126)**	77
Return on assets	**40**	3
	(86)	80

Analysis of cumulative amount recognised in other comprehensive income

	2016	2015
	£ million	*£ million*
Cumulative amount recognised at 1 January	**(257)**	(337)
(Loss)/gain recognised	**(86)**	80
Cumulative amount recognised at 31 December	**(343)**	(257)

Defined Contribution Schemes
As part of the Railway Pension Scheme, the DBC UK group operates an additional voluntary contribution scheme, the British Railways Additional Superannuation 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 2016 totalled £442,000 (2015: £542,000). BRASS holds funds for members that will be used to purchase additional benefits at retirement on a money purchase basis.

For employees not eligible to or who choose not to participate in the Railway Pension Scheme, the company operates a separate defined contribution pension scheme. Contributions by the company to the scheme in 2016 were £41,000 (2015:£24,000). Contributions of £1,520,689 were to be paid over as at 31 December 2016 (2015: £nil) in respect of defined contribution schemes.

23. Called up share capital

	2016		2015	
	No.	£ million	No.	£ million
Authorised				
Ordinary shares of £1 each	**26,947,932**	**27**	26,947,932	27
Allotted and fully paid:				
Ordinary shares of £1 each	**18,947,932**	**19**	18,947,932	19

24. Commitments and contingent liabilities

(i) Capital commitments

There were capital commitments totalling £4.7 million at the end of the financial year for which no provision has been made (2015: £6.6 million).

(ii) 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 2016 the matters outstanding, in the opinion of the directors, are not expected to have a materially adverse effect.

(iii) Other group companies

The company has given guarantees in respect of a number of fellow subsidiaries of the DBC UK group including;

- Railway Investments Limited
- Marcroft Holdings Limited
- Axiom Rail (Stoke) Limited
- Rail Terminal Services Limited

(iv) Other contingent liabilities

There were no other contingent liabilities at the end of the financial year.

25. Obligations under operating leases

a. Obligations under operating leases where the company is a lessee

The company has entered into commercial leases on certain properties and motor vehicles. These leases had durations of between 3 and 125 years at the date of inception. Operating lease liabilities are secured over the assets to which they relate, there are no other restrictions placed upon the lessee by entering into these lease agreements.

The total obligations for minimum lease payments under non-cancellable operating leases are as follows:

	2016		2015	
	Land and Buildings	**Plant and machinery**	Land and Buildings	Plant and machinery
	£ million	*£ million*	*£ million*	*£ million*
Future minimum lease payments due				
Within one year	**4**	**12**	4	16
Within two to five years	**14**	**14**	14	21
After five years	**36**	**8**	38	9
	54	**34**	56	46

25. Obligations under operating leases (continued)

b. Obligations under operating leases where the company is a lessor

The company leases a number of properties to third parties, which at the date of inception had durations of between 1 and 125 years under non-cancellable operating lease agreements. These properties include freehold land and buildings and property leased to the company under operating leases.

Future minimum lease payments receivable under the non-cancellable operating leases are as follows.

	2016	2015
	£ million	*£ million*
Future minimum lease payments receivable		
Within one year	**6**	6
Within two to five years	**15**	17
After five years	**23**	24
	44	47

26. Financial instruments

a) Financial instruments

An explanation of the company's financial instrument risk management objectives, policies and strategies are set out in the discussion of principal risks and uncertainties in the Directors' report.

b) Cash flow hedges

At 31 December 2016, the company held a total of nil (2015: 2) forward exchange contracts designated as cash flow hedges for the expected future purchases of diesel fuel which the company believes to be 'highly probable' transactions.

27. Parent company

The company's immediate parent company is Boreal & Austral Railfreight Limited, a company registered in England and Wales.

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.