DB Schenker Rail (UK) Limited

Annual report

For the year ended 31 December 2013

Registered number 02938988

TUESDAY

A3HJ8GS3

A05 30/09/2014 #295

COMPANIES HOUSE

DB Schenker Rail (UK) Limited

Annual report

Contents *Pages*

Strategic report for the year ended 31 December 2013	1 - 2
Directors' report for the year ended 31 December 2013	3 - 4
Independent auditors' report to the members of DB Schenker Rail (UK) Limited	5 - 6
Profit and loss account for the year ended 31 December 2013	7
Statement of total recognised gains and losses for the year ended 31 December 2013	8
Balance sheet as at 31 December 2013	9
Notes to the financial statements for the year ended 31 December 2013	10 – 26

DB Schenker Rail (UK) Limited

Strategic report for the year ended 31 December 2013

The directors present their strategic report for the year ended 31 December 2013.

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 profit on ordinary activities before taxation for the year is £41 million (2012: £4 million). The company's profit for the year is £37 million (2012: £10 million). Both the level of business and the year end financial position were satisfactory given the economic and operational climate.

On the 23 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.

Post balance sheet events and future developments

On the 31 March 2014 the company entered into an agreement with Network Rail Infrastructure Limited to surrender its leasehold rights in respect of 85 properties for a consideration of £151 million. Costs associated with the transaction, including the net book value of fixed assets associated with the properties are estimated to be £9.9million. The transaction has a legal completion date of 31 October 2014.

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.

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.

Strategic report for the year ended 31 December 2013 *(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.

By order of the board

A. Rossi
Director
12 September 2014

DB Schenker Rail (UK) Limited

Directors' report for the year ended 31 December 2013

The directors present their report and the audited financial statements of the company for the year ended 31 December 2013.

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 (2012: £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	(Resigned 1 December 2013)
A. Rossi	(Appointed 1 December 2013)

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.

Political and charitable donations
Senior management of the DBSR UK group attend dinners held by both of the main political parties. This expenditure of £nil (2012: £109) is considered to constitute a political donation. No other political donations were, however, incurred (31 December 2012: £nil).

Charitable donations of £10,750 (31 December 2012: £150) were made, and in addition time and resources were also made available as part of our charitable endeavours.

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.

Directors' report for the year ended 31 December 2013 *(continued)*

Statement of directors' responsibilities
The directors are responsible for preparing the strategic report, 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. Rossi
Director
12 September 2014

DB Schenker Rail (UK) Limited

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

Report on the financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The financial statements, which are prepared by DB Schenker (UK) Limited, comprise:

- the balance sheet as at 31 December 2013;
- the profit and loss account and the statement of total recognised gains and losses 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 their preparation is applicable law and United Kingdom Accounting Standards (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.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

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.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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.

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 4, 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 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.



Andy Ward (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
15 September 2014

DB Schenker Rail (UK) Limited

Profit and loss account for the year 31 December 2013

	Note	Year to 31 December 2013 *£ million*	Year to 31 December 2012 *£ million*
Turnover		**445**	429
Operating costs		**(417)**	(404)
Operating profit before exceptional items		**28**	25
Exceptional items	2	**-**	(25)
Operating profit/result	4	**28**	-
Profit on sale of fixed assets		**11**	2
Other finance income	7	**2**	2
Profit on ordinary activities before taxation		**41**	4
Tax on profit on ordinary activities	8	**(4)**	6
Profit for the financial year	18	**37**	10

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 2013

	Note	**Year to 31 December 2013 *£ million***	Year to 31 December 2012 *£ million*
Profit for the financial year		**37**	10
Decrease in donated asset reserve	18	**(1)**	(1)
Actuarial loss on pension scheme	20	**(38)**	(50)
Movement in deferred tax relating to pension deficit	15	**3**	9
Total recognised gains and losses relating to the year		**1**	(32)
Prior year adjustment	3	**-**	7
Total recognised gains and losses since last annual report		**1**	(25)

DB Schenker Rail (UK) Limited

Registered number: 02938988

Balance sheet as at 31 December 2013

	Note	2013 £ million	2012 £ million
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	**247**	255
		247	255
Current assets			
Stocks	11	**21**	15
Debtors	12	**199**	160
Cash at bank and in hand		**2**	1
		222	176
Creditors: amounts falling due within one year	13	**(154)**	(140)
Net current assets		**68**	36
Total assets less current liabilities		**315**	291
Creditors: amounts falling due after more than one year	14	**(8)**	(8)
Provisions for liabilities	15	**(23)**	(32)
Net assets excluding pension deficit		**284**	251
Pension deficit	20	**(125)**	(93)
Net assets including pension deficit		**159**	158
Capital and reserves			
Called up share capital	16	**19**	19
Share premium account	18	**72**	72
Other reserves	18	**25**	26
Profit and loss account	18	**43**	41
Total shareholders' funds		**159**	158

The financial statements on pages 7 to 26 were approved by the board of directors on 12 September 2014 and were signed on its behalf by:

A. Rossi
Director

Notes to the financial statements for the year ended 31 December 2013

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 in the United Kingdom. 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.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

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.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

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, related ancillary services and rental income 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.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

2 Exceptional items

	Year to 31 December 2013 £ million	Year to 31 December 2012 £ 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 conducted in the prior year 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 prior year.

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

Onerous lease provision
In the prior year a number of leased rolling stock assets were identified that were not in use nor expected to be utilised during the remaining lease term. Consequently an onerous lease provision was created which was equal to the future operating lease payments on the un-used rolling stock. In the prior 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 identified. During the prior year, where redundant posts were identified and communicated, a provision was raised to cover these costs. As at 31 December 2013 £105,000 of the provision was outstanding.

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 resulted in a curtailment gain under FRS 17 in the prior year.

The tax effect of the above transactions was to reduce the company's tax charge by £nil (2012: £7m).

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

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 was concluded that no liability was required and therefore this accrual was 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/result

	Year to 31 December 2013 £ million	Year to 31 December 2012 £ million
Operating profit is stated after (charging)/crediting:		
Depreciation of tangible fixed assets:		
- owned	(21)	(19)
Rentals payable under operating leases:		
- Land and buildings	(1)	(1)
- plant and machinery	(44)	(46)
Release of donated asset reserve *(note 18)*	1	1
Other exceptional items *(note 2)*	-	(26)
Management charge to other group companies	3	3
Rents receivable from property	18	15

Services provided by the company's auditor

During the year the company obtained the following services from the company's auditor on behalf of the company and fellow subsidiary companies of the DBSRUK group:

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Fees payable to the company's auditor and it's associates for the audit of the company and fellow subsidiary companies of the DBSRUK group's financial statements	175	200
Fees payable to the company's auditor and it's associates for other services:		
Audit related assurance services	24	14
Taxation compliance services	6	-
Taxation advisory services	20	-
All other assurance services	45	-
	270	214

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

5 Remuneration of directors

	Year to 31 December 2013 £'000	Year to 31 December 2012 £'000
Aggregate emoluments	100	9
Sums paid to third parties for directors' services	569	661
	669	670

None of the directors' held share options of the company during the year ended 31 December 2013 (2012: nil). Retirement benefits are accruing to 1 (2012: nil) director under a defined benefit scheme.

6 Staff numbers and costs

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

	Year to 31 December 2013 Number	Year to 31 December 2012 Number
By activity		
Management and operation of rail freight and associated services	2,648	2,669

The aggregate payroll costs of these persons were as follows:

	Year to 31 December 2013 £ million	Year to 31 December 2012 £ million
Wages and salaries	123	119
Social security costs	10	10
Other pension costs *(note 20)*	13	14
Other staff costs	7	5
	153	148

7 Other finance income

	Year to 31 December 2013 £ million	Year to 31 December 2012 £ million
Expected return on pension scheme assets *(note 20)*	29	30
Interest on pension scheme liabilities *(note 20)*	(27)	(28)
	2	2

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

8 Tax on profit on ordinary activities

Analysis of credit/(charge) in period

	Year to 31 December 2013 £ million	Year to 31 December 2012 £ million
Current tax		
UK corporation tax – current year	7	5
Adjustments in respect of prior years	(1)	(2)
	6	3
Deferred tax		
Origination and reversal of timing differences – current year	(2)	(6)
Origination and reversal of timing differences – prior year	-	(3)
Tax on profit on ordinary activities	4	(6)

The tax for the year is lower (2012: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2013 of 23.25% (2012: 24.5%). The differences are explained below.

	Year to 31 December 2013 £ million	Year to 31 December 2012 £ million
Profit on ordinary activities before tax	41	4
Profit on ordinary activities before tax multiplied by the effective rate of UK corporation tax of 23.25% (2012: 24.5%)	10	1
Effects of:		
Capital allowances less than depreciation	-	8
Use of unrecognised capital losses	(2)	-
Adjustments in respect of prior years	(1)	(2)
Movement on deferred tax on pension liability	(1)	(4)
Current tax charge for the year	6	3

The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 23.25%.

The Finance Act 2013 includes legislation reducing the main rate of corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

9 Intangible assets

	Goodwill *£ million*
Gross value	
At 1 January 2013 and **31 December 2013**	1
Accumulated amortisation	
At 1 January 2013 and **31 December 2013**	1
Net book value	
At 31 December 2013	-
At 31 December 2012	-

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 2013	51	384	111	41	15	602
Additions	-	-	-	-	15	15
Disposals	-	(5)	(11)	(1)	-	(17)
Transfers	-	12	1	-	(13)	-
At 31 December 2013	51	391	101	40	17	600
Accumulated depreciation						
At 1 January 2013	21	212	89	25	-	347
Charge for the year	2	15	3	1	-	21
On disposals	-	(7)	(8)	-	-	(15)
At 31 December 2013	23	220	84	26	-	353
Net book value						
At 31 December 2013	28	171	17	14	17	247
At 31 December 2012	30	172	22	16	15	255

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

10 Tangible assets *(continued)*

Analysis of land and buildings

	2013 £ million	2012 £ million
Analysis of land and buildings at cost or valuation		
At cost	23	25
At valuation	5	5
	28	30

	2013 £ million	2012 £ million
The net book value of land and buildings comprises		
Freehold	24	26
Long leasehold	4	4
	28	30

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

	2013 £ million	2012 £ million
Cost	45	45
Aggregate depreciation	(23)	(19)
Net book value	22	26

11 Stocks

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

12 Debtors

	2013 £ million	2012 as restated £ million
Trade debtors	45	45
Cash pooling account	95	70
Amounts owed by group undertakings	22	17
Other debtors	6	7
Prepayments and accrued income	31	21
	199	160

The company has an agreement for both domestic and foreign currency cash pooling with DB Mobility Logistics AG. Under the terms of the agreement, balances within the company's bank accounts are acquired by DB Mobility Logistics 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 pooling account.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

12 Debtors *(continued)*

The cash pooling account is maintained by DB Mobility Logistics 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 is as follows:

- on positive balances GBP overnight LIBOR - 0.25% p.a.

Group trading balances are unsecured, interest free and payable in line with intercompany trading terms and conditions.

The comparative debtor balances have been restated to disclose the cash pooling account separately to amounts owed by group undertakings.

13 Creditors: amounts falling due within one year

	2013 £ million	2012 £ million
Trade creditors	47	45
Amounts owed to group undertakings	64	70
Corporation tax payable	6	4
Other taxation and social security	13	2
Accruals and deferred income	20	17
Other creditors	4	2
	154	140

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

	2013 £ million	2012 £ million
Deferred income due after more than one year		
Government capital grants	1	1
Other contributions to capital expenditure	4	4
Other deferred income	3	3
	8	8
Comprising of:		
Government capital grants		
At 1 January 2013 and at 31 December 2013	1	1
Other contributions to capital expenditure		
At 1 January 2013	4	2
Capital contributions received	-	2
At 31 December 2013	4	4
Other deferred income		
At 1 January 2013	3	4
Credited to profit and loss account	-	(1)
At 31 December 2013	3	3

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

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

15 Provisions for liabilities

	At 1 January 2013 £ million	Utilised during the year £ million	Unutilised amounts released in the year £ million	Provisions created in the year £ million	At 31 December 2013 £ million
Deferred tax provision	20	-	(3)	-	17
Redundancy provision	2	(2)	-	-	-
Claims provision	2	(4)	(1)	4	1
Onerous lease provision	4	(2)	(1)	-	1
Other provisions	4	-	-	-	4
Total provisions	32	(8)	(5)	4	23

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.

	2013 £ million	2012 £ million
Accelerated capital allowances	17	20

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

	2013 £ million	2012 £ million
At 1 January	27	22
Deferred tax credited/(charged) to the statement of total recognised gains and losses:		
- on actuarial gain	7	11
- change in tax rate	(4)	(2)
Deferred tax charged to the profit and loss account	1	(4)
At 31 December	31	27

The deferred tax asset of £31 million (2012: £27 million) has been recognised in arriving at the pension deficit on the balance sheet.

As the Finance Act 2013 was substantively enacted at the balance sheet date, deferred tax balances at 31 December 2013 have been calculated using a tax rate of 20%. Reductions to the main rate are proposed to reduce the rate to 21% by 1 April 2014 and to 20% by 1 April 2015.

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.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

15 Provisions for liabilities *(continued)*

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

16 Called up share capital

	2013 £ million	2012 £ million
Authorised		
26,947,932 ordinary shares of £1 each (2012: 26,947,932)	27	27
Allotted and fully paid		
18,947,932 ordinary shares of £1 each (2012:18,947,932)	19	19

17 Reconciliation of movements in shareholders funds

	Note	Year to 31 December 2013 £m	Year to 31 December 2013 £m	Year to 31 December 2012 £m	Year to 31 December 2012 £m
Profit for the financial year		37		10	
Decrease in donated asset reserve	18	(1)		(1)	
Actuarial loss on pension scheme	20	(38)		(50)	
Movement on deferred tax relating to the pension deficit	15	3		9	
Net change in shareholders' funds			1		(32)
Opening shareholders' funds as previously stated		158		183	
Prior year adjustment (note 3)	3	-		7	
Opening shareholders' funds as restated			158		190
Closing shareholders' funds			159		158

18 Reserves

	Capital reserve £ million	Donated asset reserve £ million	Other Reserves £ million	Share premium account £ million	Profit and loss account £ million
At 1 January 2013	9	17	26	72	41
Profit for the financial year	-	-	-	-	37
Release from donated asset reserve	-	(1)	(1)	-	-
Actuarial loss on pension scheme	-	-	-	-	(38)
Movement on deferred tax relating to actuarial loss on pension scheme *(note 15)*	-	-	-	-	3
At 31 December 2013	**9**	**16**	**25**	**72**	**43**

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

19 Commitments and contingent liabilities

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

	2013 £ million	2012 £ million
Contracted	-	2

(ii) There were no commitments at the year end to enter into finance leases starting after the period end (2012: £nil).

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

	2013		2012	
	Land and buildings £ million	**Plant and machinery £ million**	Land and buildings £ million	Plant and machinery £ million
Operating leases which expire:				
Within one year	-	1	-	-
In the second to fifth years inclusive	-	40	-	42
Over five years	1	3	1	4
	1	44	1	46

(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 2013 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 2013, in the opinion of the Directors, measures are in place to mitigate the risk of a repayment obligation arising.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

20 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 2013 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:

	2013 £ million	2012 £ million
Opening cumulative STRGL	(227)	(177)
Actuarial loss	(38)	(50)
Closing cumulative STRGL	(265)	(227)

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

	Value at 31 December 2013 £ million	**Expected rate of return as at 31 December 2013**	Value at 31 December 2012 £ million	Expected rate of return as at 31 December 2012
Equities	270.0	7.60%	433.7	6.70%
Bonds – government	248.9	3.60%	110.3	2.70%
Bonds – non-government	250.3	4.30%	110.5	4.50%
Property	77.0	6.60%	63.6	5.70%
Cash	2.0	3.60%	4.4	2.70%
Other	73.7	7.60%	131.0	6.70%
Total	921.9		853.5	

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.

	2013 £ million	2012 £ million
Actual return on plan assets (100%)	81	73

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

20 Pension scheme *(continued)*

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

	2013	2012
Inflation rate – RPI	3.30%	2.80%
Inflation rate – CPI	2.30%	2.10%
Salary inflation	4.00%	3.40%
Pension growth	2.30%	2.10%
Discount rate	4.30%	4.40%

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.

	2013 *Years*	2012 *Years*
Longevity at age 65 for current pensioners:		
- Men	23.4	23.4
- Women	26.1	26.1
Longevity at age 65 for future pensioners aged 45:		
- Men	25.1	25.1
- Women	27.8	27.8

History of experience gains and losses:

	31 Dec 2013 *£ million*	31 Dec 2012 *£ million*	31 Dec 2011 *£ million*	31 Dec 2010 *£ million*	31Dec 2009 *£ million*
Company's share of present value of defined benefit	(709)	(632)	(564)	(584)	(577)
Company's share of value of assets	553	512	477	494	444
Deficit	(156)	(120)	(87)	(90)	(133)
Experience gain/(loss) on scheme plan liabilities	(94)	(68)	(19)	21	(2)
Difference between the expected and actual return on assets	32	16	(46)	26	37

The best estimate of contributions to be paid to the plan by the company in 2014 is £15 million.

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

20 Pension scheme *(continued)*

Estimate of the profit and loss figures for the year ending 31 December 2014:

	£ million
Employer's service cost (including BRASS)	16
Interest cost	30
Expected return on assets	(30)
Net estimated profit and loss charge	16

The following amounts at 31 December 2013 were measured in accordance with the requirements of Financial Reporting Standard 17:

	2013 ***£ million***		2012 *£ million*	
Total market value of assets	922		854	
Less members share of assets	(369)		(342)	
Company's share of assets		553		512
Total present value of scheme liabilities, including member's agreed contribution reductions	(1,182)		(1,054)	
Less members' share of scheme liabilities	473		422	
Company's share of scheme liabilities		(709)		(632)
Deficit in scheme		(156)		(120)
Related deferred tax asset *(note 15)*		31		27
Net pensions liability		(125)		(93)

Reconciliation of present value of scheme liabilities

	2013 ***£ million***	2012 *£ million*
At 1 January	632	564
Current service cost	15	13
Interest cost	27	28
Benefits paid	(22)	(25)
Actuarial loss	57	67
Curtailment (note 2)	-	(15)
At 31 December	709	632

Reconciliation of present value of scheme assets

	2013 ***£ million***	2012 *£ million*
At 1 January	512	477
Contributions by employer	15	14
Expected return on scheme assets	29	30
Benefits paid	(22)	(25)
Actuarial gain	19	16
At 31 December	553	512

Notes to the financial statements for the year ended 31 December 2013 *(continued)*

20 Pension scheme *(continued)*

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

	2013 ***£ million***	2012 *£ million*
Current service cost	15	13
Expected return on pension scheme assets	(29)	(30)
Interest cost on pension scheme liabilities	27	28
Curtailment	-	(15)
Total gain/(loss)	13	(4)

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 2013 totalled £587,834 (2012: £631,486) and contributions of £43,189 (2012: £47,230) were to be paid over as at 31 December 2013. 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 2013'

As the Finance Act 2013 was substantively enacted at the balance sheet date, deferred tax balances at 31 December 2013 have been calculated using a tax rate of 20%. Reductions to the main rate are proposed to reduce the rate to 21% by 1 April 2014 and to 20% by 1 April 2015.

21 Post Balance Sheet Events

On the 31 March 2014 the company entered into an agreement with Network Rail Infrastructure Limited to surrender its leasehold rights in respect of 85 properties for a consideration of £151million. Costs associated with the transaction, including the net book value of fixed assets associated with the properties are estimated to be £9.9million. The transaction has a legal completion date of 31 October 2014.

22 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.