

DB Schenker Rail (UK) Limited

Annual report

For the year ended 31 December 2014

Registered number 02938988

FRIDAY



A34 *A4HO1C2I* 09/10/2015 #76
COMPANIES HOUSE

DB Schenker Rail (UK) Limited

Annual report

<i>Contents</i>	<i>Pages</i>
Strategic report for the year ended 31 December 2014	1 - 3
Directors' report for the year ended 31 December 2014	4 - 5
Independent auditors' report to the members of DB Schenker Rail (UK) Limited	6 - 7
Profit and loss account for the year ended 31 December 2014	8
Statement of total recognised gains and losses for the year ended 31 December 2014	9
Balance sheet as at 31 December 2014	10
Notes to the financial statements for the year ended 31 December 2014	11 – 27

DB Schenker Rail (UK) Limited

Strategic report for the year ended 31 December 2014

The directors present their strategic report for the year ended 31 December 2014

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 £180 million (2013. £41 million) The company's profit for the financial year is £176 million (2013 £37 million) Both the level of business and the year-end financial position were satisfactory given the economic and operational climate.

On 31st 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, was £3 million The transaction was completed on 31st October 2014 A further 5 property interests were disposed during the year for a consideration of £9 million and with associated costs of £1 million

The proceeds of this disposal will be invested in the acquisition and development of rolling stock, further developing our fleet to suit market needs

Future Prospects

The rail freight market is expected to remain competitive in the year ahead and our business is facing challenges in traditional market sectors, specifically the demand for coal transportation declining much faster than the industry and our customers could have reasonably predicted Challenges are also emerging in the metals market Our customers in these sectors remain hugely important to us and we are committed to continuing to compete in this market and to maintain and increase our share where possible.

Long term growth and target markets are now in sectors such as automotive, intermodal and construction In line with this, over recent years we have grown our offering to these industries This has included developing Anubis, the most advanced intermodal order management system on the market, which allows customers to track and trace their containers, and our investment in a new London Euro-hub, which will serve the automotive industry linking continental traffic to HS1 in the UK The business has also begun developing the extensive Bow aggregates site which will enable us to better meet the needs of our construction customers in and around the London area We have secured business wins in these growth sectors, including with BMW MINI and Malcolm Logistics and we have continued investment in innovations including stop-start technology, IT systems and training to further enhance the capability of our organisation

Post Balance Sheet Events

As part of transforming and shaping our business to ensure continued growth in response to the aforementioned changing markets, we have begun a period of formal consultation with colleagues and Trade Union partners during the week commencing 8th June 2015 to discuss a proposed reduction of 234 positions in our business

Strategy

DB Schenker Rail (UK) Holdings Limited and all its subsidiary undertakings (the "DBSR UK group") have set out a clear mission to be the "First choice for rail freight, in the UK, by delivering excellence as standard " 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

DB Schenker Rail (UK) Limited

Strategic report for the year ended 31 December 2014 *(continued)*

Strategy *(continued)*

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 into 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 DBSR UK group and are not managed separately. The most significant risks to the profitability of the DBSR 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 to be 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 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.

Increased base costs

Increasing base costs will impact both profitability and our 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.

DB Schenker Rail (UK) Limited

Strategic report for the year ended 31 December 2014 (*continued*)

Loss of access to Network Rail infrastructure

The loss of access to Network Rail infrastructure would lead to an inability to fulfil customers' orders. This risk is, however, mitigated by the fact that the DBSR UK group maintains strong and clear communication with Network Rail and a regulated track access contract is in place.

Health, Safety and wellbeing

The DBSR UK group continues to be progressive and innovative in our services and policies, shaping them to support current and future business needs. We recognise and address changes that may have an impact on the business and our people. Our commitment to safety excellence is exemplary, and we lead by example.

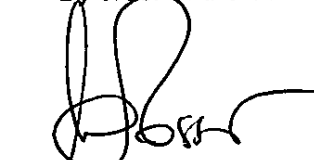
Key performance indicators (KPIs)

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, headcount, employee engagement, lost time accidents and fuel consumption reduction.

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
9 October 2015

DB Schenker Rail (UK) Limited

Directors' report for the year ended 31 December 2014

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014

Details of future developments and the management of financial risk are included in the Strategic report

Dividends

The directors do not recommend the payment of a dividend (2013 £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
A. Rossi

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

No political donations were made (31 December 2013 £nil)

Charitable donations of £2,100 (31 December 2013: £10,750) 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.

DB Schenker Rail (UK) Limited

Directors' report for the year ended 31 December 2014 (*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

9 October 2015

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, DB Schenker Rail (UK) Limited financial statements (the "financial statements")

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year 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

DB Schenker Rail (UK) Limited's financial statements comprise

- the balance sheet as at 31 December 2014,
- the profit and loss account and the statement of total recognised gains and losses for the period 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 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.

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 period for which the financial statements are prepared is consistent with the financial statements.

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.

DB Schenker Rail (UK) Limited

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

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 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



Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
7 October 2015

DB Schenker Rail (UK) Limited

Profit and loss account for the year 31 December 2014

	Note	Year to 31 December 2014 <i>£ million</i>	Year to 31 December 2013 <i>£ million</i>
Turnover		448	445
Operating costs		(445)	(417)
Operating profit before exceptional items		<u>3</u>	<u>28</u>
Exceptional items	2	17	-
Operating profit	4	<u>20</u>	<u>28</u>
Profit on sale of fixed assets	3	160	11
Other finance income	7	-	2
Profit on ordinary activities before taxation		<u>180</u>	<u>41</u>
Tax on profit on ordinary activities	8	(4)	(4)
Profit for the financial year	18	<u>176</u>	<u>37</u>

All of the company's activities are continuing

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

DB Schenker Rail (UK) Limited

Statement of total recognised gains and losses for the year ended 31 December 2014

	Note	Year to 31 December 2014 <i>£ million</i>	Year to 31 December 2013 <i>£ million</i>
Profit for the financial year		176	37
Decrease in donated asset reserve	18	(1)	(1)
Actuarial loss on pension scheme	20	(80)	(38)
Movement in deferred tax relating to pension deficit	15	16	3
Total recognised gains and losses relating to the year		<u>111</u>	<u>1</u>

DB Schenker Rail (UK) Limited

Registered number: 02938988

Balance sheet as at 31 December 2014

	Note	2014 £ million	2013 £ million
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	<u>238</u>	<u>247</u>
		238	247
Current assets			
Stocks	11	22	21
Debtors	12	372	199
Cash at bank and in hand		<u>1</u>	<u>2</u>
		395	222
Creditors: amounts falling due within one year	13	<u>(152)</u>	<u>(154)</u>
Net current assets		<u>243</u>	<u>68</u>
Total assets less current liabilities		481	315
Creditors: amounts falling due after more than one year	14	(7)	(8)
Provisions for liabilities	15	<u>(42)</u>	<u>(23)</u>
Net assets excluding pension deficit		<u>432</u>	<u>284</u>
Pension deficit	20	<u>(162)</u>	<u>(125)</u>
Net assets including pension deficit		<u>270</u>	<u>159</u>
Capital and reserves			
Called up share capital	16	19	19
Share premium account	18	72	72
Other reserves	18	24	25
Profit and loss account	18	<u>155</u>	<u>43</u>
Total shareholders' funds	17	<u>270</u>	<u>159</u>

The financial statements on pages 8 to 27 were approved by the board of directors on 9 October 2015 and were signed on its behalf by



A Rossi
Director

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014

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

Costs in respect of 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.

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 *(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.

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 *(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

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

2 Exceptional items

	Year to 31 December 2014 £ million	Year to 31 December 2013 £ million
Redundancy provision	(5)	-
Government grant provision	(5)	-
Release of donated asset reserve	1	-
FRS 17 curtailment gain	36	-
Onerous lease provision	(10)	-
	<u>17</u>	<u>-</u>

Redundancy provision

The current economic climate has resulted in a number of headcount savings being either realised or identified during the year. As at 31 December 2014 this process is ongoing but where redundant posts have been identified and communicated, a provision has been recorded.

Government grant provision

Facilities now operated by the company have previously benefited from the receipt of freight facilities grants from the Scottish Government, totalling £10.4m. 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. The Directors have assessed the proportion potentially repayable and a provision of £5.1 million has been raised.

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 and a further 3 year RPI cap to pensionable pay and other measures has resulted in a curtailment gain under FRS 17 in the current year.

Onerous lease provision

Due to current and projected operational requirements a number of leased rolling stock assets are not in use nor expected to be utilised during the remaining lease term. Consequently an onerous lease provision has been created equal to the future operating lease payments on the un-used rolling stock.

The tax effect of the above transactions was to reduce the company's tax charge by £4 million (2013: £nil).

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

3 Profit on sale of fixed assets

	Year to 31 December 2014	
	£ million	£ million
Consideration		
Property sales	160	
Other asset sales	6	
		166
Net Book Value		
Property sales	(4)	
Other asset sales	(2)	
		(6)
Profit on sale of fixed assets		160

Property sales

During the year the company disposed of its interest in 90 properties to third parties. The total gain for these transactions for the year ended 31 December 2014 was £156 million.

4 Operating profit

	Year to 31 December 2014 £ million	Year to 31 December 2013 £ million
Operating profit is stated after (charging)/crediting:		
Depreciation of tangible fixed assets		
- owned	(22)	(21)
Rentals payable under operating leases.		
- Land and buildings	-	(1)
- Plant and machinery	(52)	(44)
Release of donated asset reserve (note 18)	1	1
Other exceptional items (note 2)	17	-
Management charge to other group companies	3	3
Rental income from property	15	18

Services provided by the company's auditors

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 DBSR UK group

	Year to 31 December 2014 £'000	Year to 31 December 2013 £'000
Fees payable to the company's auditor and its associates for the audit of the company and fellow subsidiary companies of the DBSR UK group's financial statements	183	175
Fees payable to the company's auditor and its associates for other services		
Audit related assurance services	17	24
Taxation compliance services	-	6
Taxation advisory services	-	20
All other assurance services	41	45
	241	270

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

5 Remuneration of directors

	Year to 31 December 2014 £'000	Year to 31 December 2013 £'000
Aggregate emoluments	366	100
Sums paid to third parties for directors' services	219	569
	<u>585</u>	<u>669</u>

None of the directors' held share options of the company during the year ended 31 December 2014 (2013 nil). Retirement benefits are accruing to 1 (2013 1) director under a defined benefit scheme

6 Staff numbers and costs

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

	Year to 31 December 2014 Number	Year to 31 December 2013 Number
By activity		
Management and operation of rail freight and associated services	<u>2,803</u>	<u>2,648</u>

The aggregate payroll costs of these persons were as follows

	Year to 31 December 2014 £ million	Year to 31 December 2013 £ million
Wages and salaries	134	123
Social security costs	11	10
Other pension costs (note 20)	17	13
Other staff costs	10	7
	<u>172</u>	<u>153</u>

7 Other finance income

	Year to 31 December 2014 £ million	Year to 31 December 2013 £ million
Expected return on pension scheme assets (note 20)	30	29
Interest on pension scheme liabilities (note 20)	<u>(30)</u>	<u>(27)</u>
	<u>-</u>	<u>2</u>

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

8 Tax on profit on ordinary activities

Analysis of charge/(credit) in period

	Year to 31 December 2014 £ million	Year to 31 December 2013 £ million
Current tax		
UK corporation tax – current year	(1)	7
Adjustments in respect of prior years	(1)	(1)
	<u>(2)</u>	<u>6</u>
Deferred tax		
Origination and reversal of timing differences – current year	6	(2)
Tax on profit on ordinary activities	<u>4</u>	<u>4</u>

The tax for the year is lower (2013 lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2014 of 21.5% (2013 23.25%). The differences are explained below.

	Year to 31 December 2014 £ million	Year to 31 December 2013 £ million
Profit on ordinary activities before tax	<u>180</u>	<u>41</u>
Profit on ordinary activities before tax multiplied by the effective rate of UK corporation tax of 21.5% (2013 23.25%)	39	10
Effects of		
Disposal of interests in property	(20)	-
Use of unrecognised capital losses	(12)	(2)
Adjustments in respect of prior years	(1)	(1)
Movement on deferred tax on pension liability	(8)	(1)
Current tax charge for the year	<u>(2)</u>	<u>6</u>

The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 21.5%.

The Finance Act 2014 includes legislation reducing the main rate of corporation tax to 20% from 1 April 2015. Changes to the UK corporation tax system set out in the 2015 Summer Budget included proposals to further reduce the main rate of UK corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. These additional rate reductions were not substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements.

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

9 Intangible assets

	Goodwill £ million
Gross value	
At 1 January 2014 and 31 December 2014	1
Accumulated amortisation	
At 1 January 2014 and 31 December 2014	1
Net book value	
At 31 December 2014	-
At 31 December 2013	-

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 2014	51	391	101	40	17	600
Additions	-	-	-	-	18	18
Disposals	(3)	(15)	(3)	(6)	-	(27)
Transfers	1	15	3	-	(19)	-
At 31 December 2014	49	391	101	34	16	591
Accumulated depreciation						
At 1 January 2014	23	220	84	26	-	353
Charge for the year	2	15	3	2	-	22
On disposals	(2)	(13)	(3)	(4)	-	(22)
At 31 December 2014	23	222	84	24	-	353
Net book value						
At 31 December 2014	26	169	17	10	16	238
At 31 December 2013	28	171	17	14	17	247

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

10 Tangible assets (continued)

Analysis of land and buildings

	2014 £ million	2013 £ million
Analysis of land and buildings at cost or valuation		
At cost	21	23
At valuation	5	5
	<u>26</u>	<u>28</u>

	2014 £ million	2013 £ million
The net book value of land and buildings comprises		
Freehold	22	24
Long leasehold	4	4
	<u>26</u>	<u>28</u>

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

	2014 £ million	2013 £ million
Cost	45	45
Aggregate depreciation	(23)	(23)
Net book value	<u>22</u>	<u>22</u>

11 Stocks

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

12 Debtors

	2014 £ million	2013 £ million
Trade debtors	44	45
Cash pooling account	130	95
Group relief receivable	1	-
Amounts owed by group undertakings	172	22
Other debtors	1	6
Prepayments and accrued income	24	31
	<u>372</u>	<u>199</u>

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

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (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 on positive balances is GBP overnight LIBOR - 0.25% p.a.

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

13 Creditors: amounts falling due within one year

	2014 £ million	2013 £ million
Trade creditors	45	47
Amounts owed to group undertakings	62	64
Corporation tax payable	-	6
Other taxation and social security	21	13
Accruals and deferred income	19	20
Other creditors	5	4
	<u>152</u>	<u>154</u>

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

	2014 £ million	2013 £ million
Deferred income due after more than one year		
Government capital grants	1	1
Other contributions to capital expenditure	3	4
Other deferred income	<u>3</u>	<u>3</u>
	<u>7</u>	<u>8</u>
<i>Comprising of</i>		
<i>Government capital grants</i>		
At 1 January 2014 and 31 December 2014	<u>1</u>	<u>1</u>
<i>Other contributions to capital expenditure</i>		
At 1 January 2014	4	4
Credited to profit and loss account	<u>(1)</u>	<u>-</u>
At 31 December 2014	<u>3</u>	<u>4</u>
<i>Other deferred income</i>		
At 1 January 2014 and 31 December 2014	<u>3</u>	<u>3</u>

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

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

15 Provisions for liabilities

	At 1 January 2014 £ million	Utilised during the year £ million	Unutilised amounts released in the year £ million	Provisions created in the year £ million	At 31 December 2014 £ million
Deferred tax provision	17	-	(1)	-	16
Redundancy provision	-	-	-	5	5
Government grant provision	-	-	-	5	5
Claims provision	1	(2)	-	3	2
Onerous lease provision	1	(1)	-	10	10
Other provisions	4	(1)	-	1	4
Total provisions	23	(4)	(1)	24	42

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.

	2014 £ million	2013 £ million
Accelerated capital allowances	16	17

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

	2014 £ million	2013 £ million
At 1 January	31	27
Deferred tax credited/(charged) to the statement of total recognised gains and losses:		
- on actuarial gain	16	7
- change in tax rate	-	(4)
Deferred tax (credited)/charged to the profit and loss account	(7)	1
At 31 December	40	31

The deferred tax asset of £40 million (2013: £31 million) has been recognised in arriving at the pension deficit on the balance sheet.

Deferred tax balances at 31 December 2014 have been calculated using a tax rate of 20%.

Redundancy provision

The redundancy provision reflects committed costs of future planned redundancies at 31 December 2014.

Government grant provision

Facilities now operated by the company have previously benefited from the receipt of freight facilities grants from the Scottish Government, totalling £10.4m. 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. The Directors have assessed the proportion potentially repayable and a provision of £5.1 million has been raised.

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

15 Provisions for liabilities (continued)

Claims provision

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

Onerous lease provision

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

Other provisions

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

16 Called up share capital

	2014 £ million	2013 £ million
Authorised		
26,947,932 ordinary shares of £1 each (2013 26,947,932)	27	27
Allotted and fully paid		
18,947,932 ordinary shares of £1 each (2013 18,947,932)	19	19

17 Reconciliation of movements in shareholders' funds

	2014 £ million	2013 £ million
At 1 January	159	158
Profit for the financial year	176	37
Decrease in donated asset reserve	(1)	(1)
Actuarial loss on pension scheme	(80)	(38)
Movement on deferred tax relating to the pension deficit	16	3
At 31 December	270	159

18 Reserves

	Capital reserve £ million	Donated asset reserve £ million	Other Reserves £ million	Share premium account £ million	Profit and loss account £ million
At 1 January 2014	9	16	25	72	43
Profit for the financial year	-	-	-	-	176
Release from donated asset reserve	-	(1)	(1)	-	-
Actuarial loss on pension scheme	-	-	-	-	(80)
Movement on deferred tax relating to actuarial loss on pension scheme (note 15)	-	-	-	-	16
At 31 December 2014	9	15	24	72	155

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

19 Commitments and contingent liabilities

- (i) There were no capital commitments at the end of the financial year for which no provision has been made (2013 £nil)
- (ii) There were no commitments at the end of the financial year to enter into finance leases starting after the period end (2013 £nil)
- (iii) Annual commitments under non-cancellable operating leases for land and buildings and equipment delivered by the year end are as follows

	2014		2013	
	Land and buildings £ million	Plant and machinery £ million	Land and buildings £ million	Plant and machinery £ million
<i>Operating leases which expire</i>				
Within one year	-	16	-	1
In the second to fifth years inclusive	-	12	-	40
Over five years	3	3	1	3
	<u>3</u>	<u>31</u>	<u>1</u>	<u>44</u>

- (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 2014 the matters outstanding, in the opinion of the directors, are not expected to have a materially adverse effect.

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.

The 31 December 2013 triennial actuarial valuation of the DB Schenker Rail 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.

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

20 Pension scheme (continued)

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 2014 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

	2014 £ million	2013 £ million
Opening cumulative STRGL	(265)	(227)
Actuarial loss	(80)	(38)
Closing cumulative STRGL	<u>(345)</u>	<u>(265)</u>

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

	Value at 31 December 2014 £ million	Expected rate of return as at 31 December 2014	Value at 31 December 2013 £ million	Expected rate of return as at 31 December 2013
Equities	467.8	6.40%	270.0	7.60%
Bonds – government	241.7	2.40%	248.9	3.60%
Bonds – non-government	206.8	3.40%	250.3	4.30%
Property	85.6	5.40%	77.0	6.60%
Cash	3.3	2.40%	2.0	3.60%
Other	1.0	6.40%	73.7	7.60%
Total	<u>1,006.2</u>		<u>921.9</u>	

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.

	2014 £ million	2013 £ million
Actual return on plan assets (100%)	<u>99</u>	<u>81</u>

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

	2014	2013
Inflation rate – RPI	3.00%	3.30%
Inflation rate – CPI	2.00%	2.30%
Salary inflation	3.70%	4.00%
Pension growth	2.00%	2.30%
Discount rate	3.40%	4.30%

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

20 Pension scheme (continued)

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.

	2014 Years	2013 Years
Longevity at age 65 for current pensioners		
- Men	20.8	23.4
- Women	22.8	26.1
Longevity at age 65 for future pensioners aged 45		
- Men	21.9	25.1
- Women	24.1	27.8

History of experience gains and losses.

	31 Dec 2014 £ million	31 Dec 2013 £ million	31 Dec 2012 £ million	31 Dec 2011 £ million	31 Dec 2010 £ million
Company's share of present value of defined benefit	(806)	(709)	(632)	(564)	(584)
Company's share of value of assets	604	553	512	477	494
Deficit	(202)	(156)	(120)	(87)	(90)
Experience (loss)/gain on scheme plan liabilities	(159)	(94)	(68)	(19)	21
Difference between the expected and actual return on assets	48	32	16	(46)	26

The best estimate of contributions to be paid to the plan by the company in 2015 is £16 million

Estimate of the profit and loss figures for the year ending 31 December 2015.

	£ million
Employer's service cost (including BRASS)	23
Interest cost	27
Expected return on assets	(28)
Net estimated profit and loss charge	22

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 *(continued)*

20 Pension scheme *(continued)*

The following amounts at 31 December 2014 were measured in accordance with the requirements of Financial Reporting Standard 17

	2014 £ million	2013 £ million
Total market value of assets	1,006	922
Less members share of assets	<u>(402)</u>	<u>(369)</u>
Company's share of assets	604	553
Total present value of scheme liabilities, including member's agreed contribution reductions	(1,343)	(1,182)
Less members' share of scheme liabilities	<u>537</u>	<u>473</u>
Company's share of scheme liabilities	(806)	(709)
Deficit in scheme	(202)	(156)
Related deferred tax asset <i>(note 15)</i>	40	31
Net pensions liability	<u>(162)</u>	<u>(125)</u>

Reconciliation of present value of scheme liabilities

	2014 £ million	2013 £ million
At 1 January	709	632
Current service cost	18	15
Interest cost	30	27
Benefits paid	(24)	(22)
Actuarial loss	109	57
Curtailment gain <i>(note 2)</i>	(36)	-
At 31 December	<u>806</u>	<u>709</u>

Reconciliation of present value of scheme assets

	2014 £ million	2013 £ million
At 1 January	553	512
Contributions by employer	16	15
Expected return on scheme assets	30	29
Benefits paid	(24)	(22)
Actuarial gain	29	19
At 31 December	<u>604</u>	<u>553</u>

DB Schenker Rail (UK) Limited

Notes to the financial statements for the year ended 31 December 2014 *(continued)*

20 Pension scheme *(continued)*

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

	2014 £ million	2013 £ million
Current service cost	18	15
Expected return on pension scheme assets	(30)	(29)
Interest cost on pension scheme liabilities	30	27
Curtailment gain	(36)	-
Total (gain)/loss	(18)	13

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

Employer contributions in respect of the year ended 31 December 2014 totalled £597,061 (2013 £587,834) and contributions of £43,099 (2013 £43,189) were to be paid over as at 31 December 2014. 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 2014'

The Finance Act 2014 includes legislation reducing the main rate of corporation tax to 20% from 1 April 2015. Changes to the UK corporation tax system set out in the 2015 Summer Budget included proposals to further reduce the main rate of UK corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. These additional rate reductions were not substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements.

21 Post balance sheet event

As part of transforming and shaping our business to ensure continued growth in response to the changing markets we have begun a period of formal consultation with colleagues and Trade Union partners during the week commencing 8th June 2015 to discuss a proposed reduction of 234 positions in our business.

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.