FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Company Registered Number: 4113923

FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

Contents | **Pages**

DIRECTORS' REPORT
For the year ended 31 March 2011

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2011.

Principal activities

The company operates passenger railway services in the North of England and into Scotland.

Business review

The directors are satisfied with the performance of the company during the year. Turnover was £268,329,000, which was an increase of 8.9% on the previous year (2010: £246,434,000). Operating profit was £48,351,000, which was an increase of 13.2% on the previous year (2010: £42,712,000).

Train service performance declined in comparison to the previous year, with the rail industry measure of performance - Public Performance Measurement (PPM) - at 91.04% for the full year to 31 March 2011 (2010: 92.17%). This was due to the severe weather during December and January having a significant effect on train service performance.

In the Spring National Passenger Survey (NPS) overall customer satisfaction was 89% (2010: 87%). The survey highlighted improved satisfaction in a number of areas, most significant (greater than 5%) in the car parking and passenger information categories.

On 5 August 2011 the First/Keolis Transpennine franchise was extended until 1 April 2015.

Outlook

Our focus over the coming year is to consolidate the great work and achievements we have made this year and to strive towards our goal of delivering great service every day. We will still maintain our focus on performance, aiming for a consistent PPM score of at least 90%, and value for money for our passengers.

Financial matters

The results for the year are given in the profit and loss account on page 8.

During the year the company paid interim dividends of £22,000,000 (2010: £42,500,000) and the directors have declared a final dividend of £8,000,000 (2010: £nil).

Creditors

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. At 31 March 2011 the company had 45 days (2010: 44 days) purchases outstanding.

DIRECTORS' REPORT
For the year ended 31 March 2011

Directors

The directors who held office throughout the year and to date are as follows:

Bruno Auger	
Vernon I Barker (Managing Director)	
Clive Burrows	
Hugh P Clancy	
Elizabeth A Collins	
Nicholas C Donovan	
David C Gausby	
Leo D Goodwin	
Alistair J Gordon	
Mary A Grant	(resigned 31.03.2011)
Andrew J McNeil	(appointed 16.06.2011)
David P Nunn	(resigned 16.06.2011)
Stephane A Richon	(resigned 06.05.2010)
Malcolm R Rimmer	(appointed 06.07.2010)
Edith M Rodgers	
Paul C Watson	

Employee involvement

Communication with employees is effected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the company council committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests. Employee involvement is extended by the appointment of an employee director nominated by the workforce.

Additional information about employee numbers and costs is found in note 4.

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement, which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Legislation and regulation

The business is subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulations or other laws could adversely impact the results of operations. To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc regularly lobbies both government and transport bodies.

DIRECTORS' REPORT
For the year ended 31 March 2011

Principal risks and uncertainties

Labour costs

Labour costs represent a significant component of the company's operating costs. Labour shortages, or low unemployment rates, could hinder the company's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. To mitigate this risk, the company seeks to structure its recruitment and retain the right people.

Fuel costs

Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to arise because of national strikes, world supply difficulties, disruption of refining capacity or oil imports the resultant higher fuel prices and disruption to services could adversely impact the company's operating results. To mitigate the risks of rising fuel costs the company works with FirstGroup plc who regularly enters into forward contracts to buy fuel at fixed prices. In addition the company seeks to limit the impact of unexpected fuel price rises through efficiency and pricing measures.

Terrorism

Terrorist acts and the public's concerns about potential attacks could adversely affect demand for services. More particularly if the company was to be perceived as not taking all reasonable precautions to guard against potential terrorist acts this could adversely affect its reputation with the public. The company has a Head of Safety who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of our employees so that they can respond effectively to any perceived threat or incident.

Economy

The level of economic activity affects the number of train journeys taken by passengers in the UK. Any changes in economic activity may impact upon the passenger numbers and hence operations. The main competitor to the business is the car and to a lesser extent, long-distance coach operators and budget airlines. To mitigate the risk from these pressures, the company works with local and national bodies to ensure that services are provided that meet or exceed the requirements of stakeholders.

Financial instruments

The company's principal financial assets are bank balances and trade debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant concentration of credit risk, with exposure spread over a large number of customers. The credit risk on liquid funds is limited because the counterparties are banks. Although certain risks, for example, fuel price, are hedged on a group basis, the company does not enter directly into any derivative financial instruments.

DIRECTORS' REPORT
For the year ended 31 March 2011

Principal risks and uncertainties (continued)

Going concern
The directors have considered the going concern assumption in conjunction with the current economic climate and the company forecasts. After making enquiries and considering these facts, the Directors, therefore, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Audit information
Each of the directors at the date of approval of this report confirms that:

- so far as each of the directors is aware, there is no relevant audit information as defined in the Companies Act 2006 of which the company's auditor unaware; and
- the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information as defined and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Auditor

The company has passed an elective resolution dispensing with the requirement to appoint auditor annually. Deloitte LLP have indicated their willingness to continue as auditor of the company and are therefore deemed to be re-appointed for a further term.

Approved and signed by the Board of Directors

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

David C Gausby
Director
30 August 2011

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST/KEOLIS TRANSPENNINE LIMITED

We have audited the financial statements of First/Keolis Transpennine Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net funds, the reconciliation of movements in shareholders' funds, the statement of total recognised gains and losses and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST/KEOLIS TRANSPENNINE LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Chris Powell

Christopher Powell FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

31 August 2011

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2011

	Note	2011 £000	2010 £000
Turnover	2	268,329	246,434
Operating costs (net)	3	(219,978)	(203,722)
Operating profit		48,351	42,712
Net interest receivable	7	1,721	955
Profit on ordinary activities before taxation	8	50,072	43,667
Tax charge on profit on ordinary activities	9	(14,131)	(12,458)
Profit on ordinary activities after taxation	20	35,941	31,209

All activities relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Profit for the financial year		35,941	31,209
Actuarial (loss)/gain relating to pension scheme	23	(600)	1,000
Effect of decrease in tax rate on opening deferred tax balance attributable to actuarial gain		46	-
UK deferred taxation attributable to actuarial (loss)/gain		156	(280)
Total recognised gains and losses for the year		35,543	31,929

BALANCE SHEET
At 31 March 2011

	Note	2011		2010	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	11		558		1,065
Tangible assets	12		2,424		3,111
			2,982		4,176
Current assets					
Stocks	13	177		143	
Debtors	14	27,468		20,481	
Cash at bank and in hand		80,219		65,380	
		103,475		86,004	
Creditors: amounts falling due within one year	15	(82,411)		(64,770)	
Net current assets			25,453		21,234
Total assets less current liabilities			28,435		25,410
Creditors: amounts falling due after more than one year	16		(10,938)		(14,319)
Provisions for liabilities	17		(500)		-
Net assets excluding pension liability			16,997		11,091
Pension liability	23		(589)		(298)
Net assets including pension liability			16,408		10,793
Capital and reserves					
Called up share capital	19		250		250
Profit and loss account	20		16,158		10,543
Shareholders' funds			16,408		10,793

These financial statements for First/Keolis Transpennine Limited (Company Number: 4113923) were approved by the Board of directors on 30 August 2011 and were signed on its behalf by:

David C Gausby
Director

CASH FLOW STATEMENT

For the year ended 31 March 2011

	Note	2011 £000	2010 £000
Net cash inflow from operating activities	24(a)	51,030	46,094
Net cash inflow from returns on investments and servicing of finance	24(b)	421	555
Taxation paid		(13,937)	(11,727)
Capital expenditure and financial investment	24(c)	(675)	(408)
Equity dividends paid	10	(22,000)	(42,500)
Cash inflow/(outflow) before management of liquid resources and financing		14,839	(7,986)
Net cash inflow from financing		-	-
Increase/(decrease) in cash		14,839	(7,986)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

For the year ended 31 March 2011

	Note	2011 £000	2010 £000
Increase/(decrease) in cash in the year and movement in net funds in the year		14,839	(7,986)
Net funds at 1 April 2010		65,380	73,366
Net funds at 31 March 2011	25	80,219	65,380

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Profit for the financial year		35,941	31,209
FRS 20 share based payment credit		72	80
Other recognised gains and losses relating to the year (net)		(398)	720
Dividends paid and declared	10	(30,000)	(42,500)
Net increase/(decrease) in shareholders' funds		5,615	(10,491)
Opening shareholders' funds as previously stated		10,793	21,284
Closing shareholders' funds		16,408	10,793

1 Principal accounting policies

The following accounting policies have been applied consistently throughout the current and preceding year:

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable law and United Kingdom accounting standards.

The financial statements have been prepared on a going concern basis, as described in the going concern statement in the Directors' Report on page 4.

(b) Tangible fixed assets

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

Depreciation is provided to write off the cost less residual value of tangible fixed assets over their estimated useful economic lives as follows:

Other plant and equipment - 3 to 8 years straight line

(c) Leases

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

(d) Taxation

The charge for taxation is based on the profit for the year and is provided at amounts to be paid using the tax rate and laws that have been enacted or substantively enacted by the balance sheet date. The charge takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision is made for deferred tax on 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. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. The deferred tax asset is not discounted to net present value.

1 Principal accounting policies (continued)

(e) Turnover, including government grants and subsidies

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Financial support receivable from the Department for Transport – Rail is shown in turnover. Amounts are credited to the profit and loss account on the provision of services and in the period to which they relate.

(f) Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise, in relation to the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term, a liability which is assumed without additional consideration or payment receivable. Franchise goodwill is capitalised and written off on a straight line basis over the initial franchise term.

(g) Stocks

Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

(h) Pension costs

The company operates a defined benefit scheme which is held in separately administered funds.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet.

1 Principal accounting policies (continued)

(h) Pension costs (continued)

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A "franchise adjustment" is made to the deficit on this basis. The franchise adjustment is the projected deficit to the end of the franchise term which the company will not be required to fund, discounted back to present value. On transition of a rail franchise, an intangible asset is recognised as set out in note 1 (f) above, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax. This intangible asset is subsequently amortised on a straight line basis over the initial franchise term.

(i) Share based payment

The company's parent issues equity-settled share-based payments to certain of the company's employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of share that will eventually vest and is adjusted for the effects of non-market based vesting conditions.

Fair value is measured by the use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(j) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

2 Turnover and profit on ordinary activities before taxation

Turnover represents the amounts receivable for services supplied to customers during the year and includes rail support grants and amounts receivable for tendered services and concessionary fare schemes.

The whole of the turnover and profit on ordinary activities before taxation derives from the company's principal activity within the United Kingdom.

The company has one principal class of business, namely the provision of passenger transport services.

2 Turnover and profit on ordinary activities before taxation (continued)

Turnover can be analysed as follows:

	2011 £000	2010 £000
Passenger services	149,033	136,799
Revenue grant	109,922	99,495
Other	9,374	10,140
	268,329	246,434

3 Operating costs (net)

	2011 £000	2010 £000
Station & track access and facilities	77,397	75,879
Staff costs	46,496	42,899
External charges	94,958	83,613
Depreciation (see note 12)	1,362	1,571
Amortisation of grants	(742)	(747)
Intangible asset amortisation (see note 11)	507	507
	219,978	203,722

4 Employee numbers and costs

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

	2011 No	2010 No
Operations	421	421
Customer services	519	520
Other	77	77
	1,017	1,018

The aggregate payroll costs of these persons were as follows:

	2011 £000	2010 £000
Wages and salaries	38,957	37,060
Social security costs	2,639	2,639
Service cost (see note 23)	4,900	3,200
	46,496	42,899

Included in staff costs are redundancy costs of nil (2010: £26,923).
Service costs include only those items included within operating costs. Items reported elsewhere have been excluded.

5 Directors' remuneration

The remuneration of the directors during the year was as follows:

	2011 £000	2010 £000
Emoluments	1,085	1,394
Contributions to money purchase schemes	94	94

Six directors were members of the company's defined benefit scheme (2010: same).

The emoluments of the highest paid director amounted to:

	2011 £000	2010 £000
Emoluments	295	416
Money Purchase Schemes		
Accrued pension at year end	27	24
Accrued lump sum at end of year	18	16

No director exercised share options during the year or became entitled to receive shares under the FirstGroup plc long term incentive plan.

6 Share based payments

Save as you earn (SAYE)

FirstGroup plc ("the Group"), the company's ultimate controlling party, operates an HMRC approved savings related share option scheme. Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007 and December 2008, December 2009 and December 2010. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period. Share save accounts are held with Lloyds TSB and Yorkshire Building Society. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

6 Share based payments (continued)

Details of the share options of the group outstanding during the year are as follows:

	SAYE Apr 2006 Options No.	SAYE Dec 2006 Options No.	SAYE Dec 2007 Options No.	SAYE Dec 2008 Options No.	SAYE Dec 2009 Options No.	SAYE Dec 2010 Options No.
Outstanding at beginning of the year	1,265	1,789,363	1,514,616	2,224,615	2,900,694	-
Awarded during the year	-	-	-	-	-	2,999,495
Exercised during the year	-	-	(1,595)	(2,878)	(3,093)	-
Lapsed during the year	(1,265)	(1,789,363)	(1,389,721)	(272,935)	(271,508)	(33,882)
Outstanding at the end of the year	-	-	123,300	1,948,802	2,626,093	2,965,613
Exercisable at the end of the year	-	-	123,300	-	-	-
Weighted average exercise price (pence)	325.0	444.0	583.0	371.0	310.0	319.0
Weighted average share price at date of exercise (pence)	N/A	N/A	376.8	382.1	369.3	N/A

The inputs into the Black-Scholes model are as follows:

	2011	2010
Weighted average share price (pence)	387.0	395.0
Weighted average exercise price (pence)	319.0	310.0
Expected volatility	35%	35%
Expected life	3 Years	3 Years
Risk-free rate of interest	1.4%	2.0%
Expected dividend yield	4.8%	4.8%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% p.a. pre-vesting leaver assumption whereas the Executive and deferred share plans exclude any allowance for the pre-vesting forfeitures.

The Group used the inputs noted above to measure the fair value of the new share options.

6 Share based payments (continued)

The Group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total credit of £72,000 (2010: £80,000) relating to equity-settled share-based payment transactions.

7 Net interest receivable

	2011 £000	2010 £000
Income from short term deposits	421	555
Net return on pension scheme assets (note 23)	1,300	400
	1,721	955

8 Profit on ordinary activities before taxation

	2011 £000	2010 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration		
- Audit fee for audit of the company's own accounts	50	50
Depreciation		
- owned assets	1,362	1,571
Amortisation of grants	(742)	(747)
Intangible asset amortisation	507	507
Rentals payable under operating leases		
- plant and machinery	47,424	37,946
- other operating leases	73,331	72,322

No fees were payable (2010: £nil) to the auditor for non-audit services.

9 Tax on profit on ordinary activities

	2011 £000	2010 £000
Current taxation		
- UK corporation tax charge for the year	14,298	12,607
- Adjustment in respect of prior years	(221)	(330)
Total current taxation	14,077	12,277
Deferred taxation		
- Origination and reversal of timing differences	68	(233)
- Effect of decrease in tax rate on opening deferred tax balance	38	-
- Adjustment in respect of prior years	55	360
	161	127
Deferred tax on pension schemes		
- Origination and reversal of timing differences	(132)	54
- Effect of decrease in tax rate on opening deferred tax balance	25	-
	(107)	54
Total deferred taxation	54	181
Total tax charge on profit on ordinary activities	14,131	12,458

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 28% (2010: 28%). The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	2011 %	2010 %
Standard rate of taxation	28.0	28.0
Factors affecting charge:		
- Capital allowances less than of depreciation	0.2	0.9
- Other timing differences	0.3	-
- Adjustments in respect of prior years	(0.4)	(0.8)
Current taxation rate for the year	28.1	28.1

The UK corporation tax rate reduced from 28% to 26% with effect from 1 April 2011. As the rate change was substantively enacted at the balance sheet date, the effect of the reduction in the UK corporation tax rate was to reduce the deferred tax balance on UK timing differences. The effective tax rate for the period to 31 March 2012 is expected to reduce accordingly.

The UK Government has also announced their intention to subsequently reduce the UK corporation tax rate by 1% per annum to 23% with effect from 1 April 2014. This is likely to have the effect of reducing the effective tax rate in future years.

10 Equity dividends

	2011 £000	2010 £000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 March 2011 of £88 (2010: £170) per ordinary share	22,000	42,500
Final declared dividend for the year ended 31 March 2011 of £32 (2010: nil) per ordinary share	8,000	-
	30,000	42,500

11 Intangible fixed assets

	Franchise Goodwill £000
Cost	
At 1 April 2010 and 31 March 2011	4,100
Amortisation	
At 1 April 2010	3,035
Charge for year	507
At 31 March 2011	3,542
Net book value	
At 31 March 2011	558
At 31 March 2010	1,065

Franchise goodwill arises on the transition of a rail franchise, representing the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term. Franchise goodwill is capitalised and written off on a straight line basis over the initial franchise term.

12 Tangible fixed assets

	Plant and equipment £000
Cost	
At 1 April 2010	8,934
Additions	675
At 31 March 2011	9,609
Accumulated depreciation	
At 1 April 2010	5,823
Charge for year	1,362
At 31 March 2011	7,185
Net book value	
At 31 March 2011	2,424
At 31 March 2010	3,111

13 Stocks

	2011 £000	2010 £000
Fuel	177	143

The directors consider there is no material difference between the balance sheet value of the stocks and their replacement cost.

14 Debtors

	2011 £000	2010 £000
Amounts due within one year		
Trade debtors	11,664	11,641
Amounts due from related parties (note 26)	4,440	2,467
Other debtors	2,792	1,496
Other prepayments and accrued income	8,139	4,283
Deferred tax asset (note 18)	433	594
	27,468	20,481

15 Creditors

	2011 £000	2010 £000
Amounts falling due within one year		
Trade creditors	15,297	15,958
Amounts owed to related parties (note 26)	8,352	860
Corporation tax	6,891	6,753
Other tax and social security	873	1,018
Other creditors	4,343	6,052
Accruals and deferred income	46,655	34,129
	82,411	64,770

16 Creditors

	2011 £000	2010 £000
Amounts falling due after more than one year		
Accruals and deferred income	10,938	14,319

17 Provisions

	Lease Obligations £000	Total £000
At 1 April 2010	-	-
Charged to profit and loss account	500	500
At 31 March 2011	500	500

Lease obligation provisions relate to contracted costs to restore those leased assets to the conditions prescribed by the terms of the lease. These will become payable upon hand back of the assets. This cost is expected to be incurred within 3 years of the balance sheet date.

18 Deferred taxation

	£000
Asset at 1 April 2010	594
Charged to the profit and loss account (note 9)	(161)
Asset at 31 March 2011	433

The closing balance is included within debtors (see note 14).

The deferred tax asset comprises:

	2011 £000	2010 £000
Capital allowances less than depreciation	145	225
Other timing differences	288	369
Deferred tax asset	433	594

19 Called up share capital

	2011 £000	2010 £000
Authorised		
500,000 ordinary shares of £1 each	500	500
Allotted, called up and fully paid		
250,001 ordinary shares of £1 each	250	250

20 Reserves

	Profit and loss account £000
At 1 April 2010	10,543
Retained profit for the year	35,941
Actuarial loss on pension deficit (net)	(398)
Dividends (note 10)	(30,000)
FRS 20 share based payment credit (note 6)	72
At 31 March 2011	16,158

21 Commitments

Capital expenditure

The company has no capital commitments at 31 March 2011 (2010: £nil).

Operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	-	-	-
Within two to five years	451	100,178	572	109,696
More than five years	-	-	-	-
	451	100,178	572	109,696

22 Contingent liabilities

The Company had no contingent liabilities at the reporting date (2010: same). FirstGroup plc and Keolis SA have jointly provided performance bonds of £16 million (2010: £15.5 million) and a letter of credit facility of £3 million (2010: £3 million), backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the Franchise obligations of First/Keolis Transpennine Limited.

23 Pension scheme

Railways Pension Scheme - Transpennine Express Section

The company is a member of a defined benefit pension scheme, which is funded. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme.

The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out at 31 December 2010. In the indicative results the assets of the scheme were valued at £31.1 million for the former First North Western section and £49.7 million for the former Arriva Trains Northern section. The result of this valuation has been used for the purposes of these accounts. The funding level to date of the valuation was 95% for the former First North Western section and 95% for the former Arriva Trains Northern section. Total pension costs for 12 months to 31 March 2011 were £4.9 million (2010: £3.2 million). The agreed contribution rate for next 12 months is 24.1% for the former First North Western section and 25.3% for the former Arriva Trains Northern section.

During the year the Government announced its intention to change the measure that it uses for cost of living increases to public sector pensions and to change the basis for the statutory revaluation and indexation of occupational pension schemes in the private sector. Increases to pensions in payments and deferred pensions in the Railways Pension Scheme are expected to be linked to the rise in CPI in future rather than the rise in RPI. As a result of this pension liabilities are £0.4m lower as at 31 March 2011.

The main financial assumptions for the combined divisions used at the balance sheet date were as follows:

	2011	2010	2009
	£000	£000	£000
Rate of increase in salaries	4.2%	4.4%	4.1%
Rate of increase of pensions in payment	2.4%	3.4%	2.6%
Discount rate	5.5%	5.6%	6.75%
Inflation assumption	3.2%	3.4%	2.6%

23 Pension scheme (continued)

The fair value of the scheme's assets, the present value of the liabilities and the expected rates of return as at 31 March 2011 were:

	2011 Expected rate of return	2010 Expected rate of return	2009 Expected rate of return	2011 Value £000	2010 Value £000	2009 Value £000
Equities	8.85%	9.05%	8.65%	-	45,800	28,600
Bonds	5.2%	5.3%	6.5%	1,800	3,700	2,300
Property	6.85%	7.6%	6.8%	-	5,300	4,200
Private Equity	9.0%	-	-	6,800	-	-
Other	4.3%	5.4%	5.0%	300	100	200
Infrastructure	8.0%	8.0%	8.0%	3,200	3,300	3,300
Cash plus	8.85%	9.05%	8.65%	60,400	5,800	4,600
				72,500	64,000	43,200

The balance sheet position for the company:

	2011 £000	2010 £000	2009 £000
Total fair value of assets	72,500	64,000	43,200
Present value of scheme liabilities	(90,300)	(89,500)	(56,100)
Franchise adjustment	10,100	15,300	6,100
Deficit in the scheme	(7,700)	(10,200)	(6,800)
Employee share of deficit	7,100	10,200	5,100
Liability recognised in the balance sheet	(600)	-	(1,700)
Related deferred tax (liability)/asset	11	(298)	36
Net pension liability	(589)	(298)	(1,664)

Analysis of amount charged to operating profit:

	2011 £000	2010 £000
Current service costs	4,900	3,200
Total operating charge	4,900	3,200

Amounts charged to net finance income:

	2011 £000	2010 £000
Expected return on pension scheme assets	3,400	2,300
Interest on pension scheme liabilities	(2,100)	(1,900)
Net return (credit to finance income)	1,300	400

Amounts recognised in the statement of total recognised gains and losses ("STRGL"):

	2011 £000	2010 £000
Actual return less expected return on pension scheme assets	(900)	7,500
Experience gains and losses arising on scheme liabilities	6,100	(15,400)
Actuarial (loss)/gain due to franchise adjustment	(5,800)	8,900
Actuarial (loss)/gain recognised in STRGL	(600)	1,000

23 Pension scheme (continued)

Movement in scheme deficit during the year:

	2011	2010
	£000	£000
(Deficit) at 1 April 2010 and 1 April 2009	-	(1,700)
Movement in year:		
Current service cost	(4,900)	(3,200)
Contributions	3,600	3,500
Net finance income	1,300	400
Actuarial (loss)/gain	(600)	1,000
(Deficit) at 31 March 2011 and 31 March 2010	(600)	-

Movements in the present value of defined benefit obligations (DBO) were as follows:

	2011	2010
	£000	£000
At 1 April 2010 and 1 April 2009	89,500	56,100
Movement in year:		
Current service cost	4,900	3,200
Brass contributions	(300)	(200)
Interest cost	2,800	2,300
Employee share of change in DBO	900	13,800
Actuarial (gain)/loss	(6,200)	15,300
Benefit payments	(1,300)	(1,000)
At 31 March 2011 and 31 March 2010	90,300	89,500

Movements in the fair value of scheme assets were as follows:

	2011	2010
	£000	£000
At 1 April 2010 and 1 April 2009	64,000	43,200
Movement in year:		
Expected return on assets	3,400	2,300
Employer contributions	3,600	3,500
Brass contributions	(300)	(200)
Employee contributions	2,300	2,200
Employee share of return on assets	1,700	6,500
(Loss)/gain on assets	(900)	7,500
Benefits paid	(1,300)	(1,000)
At 31 March 2011 and 31 March 2010	72,500	64,000

23 Pension scheme (continued)

Movements in the franchise adjustment were as follows:

	2011 £000	2010 £000
At 1 April 2010 and 1 April 2009	(25,600)	(10,100)
Movement in year:		
Interest on franchise adjustment	(600)	(400)
Employee share of change in BDO	3,600	(6,200)
Actuarial gain/(loss)	5,800	(8,900)
At 31 March 2011 and 31 March 2010	(16,800)	(25,600)

History of experience gains and losses:

	2011	2010	2009	2008	2007
Difference between the expected and actual return on scheme assets:					
Amount (£000)	900	7,500	(12,800)	(3,200)	4,200
Percentage of scheme assets (%)	12.4%	11.7%	(29.6%)	(5.7%)	7.6%
Experience losses and gains on scheme liabilities:					
Amount (£000)	(6,100)	(15,400)	6,200	5,200	(1,600)
Percentage of the present value of scheme liabilities (%)	(6.8%)	(17.2%)	11%	9.0%	(2.7%)
Total actuarial gain/(loss) in the statement of total recognised gains and losses:					
Amount (£000)	(600)	1,000	(500)	(2,300)	2,600
Percentage of the present value of scheme liabilities (%)	(0.7%)	1.1%	(1%)	(4.0%)	4.3%

24 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	2011 £000	2010 £000
Operating profit	48,351	42,712
Depreciation and other amounts written off tangible fixed assets	1,362	1,571
Amortisation of intangible asset	507	507
Increase in stock	(34)	(83)
(Increase)/decrease in debtors	(2,759)	144
Increase in creditors	2,303	1,543
Movement in pension commitment	1,300	(300)
Net cash inflow from operating activities	51,030	46,094

24 Notes to the cash flow statement (continued)

(b) Returns on investments and servicing of finance	2011 £000	2010 £000
Interest received	421	555
Net cash inflow from returns on investments and servicing of finance	421	555

(c) Capital expenditure and financial investment	2011 £000	2010 £000
Purchase of tangible fixed assets	(675)	(408)
Net cash outflow from capital expenditure and financial investment	(675)	(408)

25 Analysis of net funds

	2011 £000	2010 £000
Cash at bank and in hand	80,219	65,380

26 Related party transactions

The following companies are deemed to be related parties:

FirstGroup plc, which is the ultimate controlling party, is deemed to be a related party by virtue of its shareholding in and ability to control the company. There were transactions relating to affiliate service agreements and interest charged on loans in the year to 31 March 2011 (2010: same).

Keolis (UK) Limited, a wholly owned subsidiary of Keolis SA, which is one of the controlling parties, is deemed to be a related party by virtue of its shareholding and control of the company. There were transactions relating to affiliate service agreements and interest charged on loans in the year to 31 March 2011 (2010: same).

First Capital Connect Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to cost recharges in the year to 31 March 2011 (2010: same).

First ScotRail Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to cost recharges in the year to 31 March 2011 (2010: same).

First Greater Western Limited, whose ultimate parent company is FirstGroup plc and is, therefore, deemed to be a related party. There were service charges invoiced in the year to 31 March 2011 (2010: same) in relation to the transactions' processing performed for the Company.

26 Related party transactions (continued)

First Manchester Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were no transactions during the year to 31 March 2011 and transactions relating to cost recharges in the year to 31 March 2010.

Hull Trains Company Limited is a subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to cost recharges in the year to 31 March 2011 (2010: same).

First Rail Support Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to the provision of rail replacement buses in the year to 31 March 2011 (2010: same).

Transportation Claims Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to the provision of insurance claims services in the year to 31 March 2011 (2010: same).

The following transactions were charged/(credited) to the profit and loss account:

	2011 £'000	2010 £'000
FirstGroup plc		
Affiliate service agreements and loan interest	4,564	13,095
Keolis (UK) Limited		
Affiliate service agreements and loan interest	392	466
First Capital Connect Limited		
Recharged costs	(1)	(173)
First ScotRail Limited		
Recharged costs	85	195
First Greater Western Limited		
Transactions' processing and recharged costs	101	217
First Manchester Limited		
Recharged costs	-	7
Hull Trains Company Limited		
Affiliate service agreements	(304)	(361)
First Rail Support Limited		
Rail replacement buses	1,382	2,718
Transportation Claims Limited		
Provision of insurance & claims services	387	133
Total	6,606	16,297

26 Related party transactions (continued)

The following amounts were outstanding to the Company at the end of the year in relation to loan transactions:

	2011 £'000	2010 £'000
FirstGroup plc	2,750	2,750
Keolis (UK) Limited	2,250	2,250
Total	5,000	5,000

The following amounts were outstanding (to)/from the company at the end of the year in relation to related party transactions:

	2011 £'000	2010 £'000
FirstGroup plc	2,095	199
Keolis (UK) Limited	2,294	2,262
First/Keolis Transpennine Holdings Limited	(8,000)	-
First Capital Connect Limited	-	5
First ScotRail Limited	(1)	(27)
First Greater Western	(223)	(6)
Hull Trains Company Limited	51	1
First Rail Support Limited	(122)	(509)
Transportation Claims Limited	(6)	(318)
Total	(3,912)	1,607

Dividends for the year of £30,000,000 (2010: £42,500,000) were paid to First/Keolis Transpennine Holdings Limited during the year. Dividends of £8,000,000 were outstanding at the year end (2010: nil).

27 Ultimate and immediate parent company and controlling party

The immediate parent company is First/Keolis Transpennine Holdings Limited which is registered in England and Wales. The ultimate parent companies are FirstGroup plc, which is incorporated in Great Britain and registered in Scotland, and Keolis (UK) Limited which is registered in England and Wales.

The ultimate controlling party is FirstGroup plc. The largest and smallest group in which these accounts are consolidated are FirstGroup plc. Copies of the accounts of FirstGroup plc can be obtained from the London office of this company at Ground Floor, 50 Eastbourne Terrace, London, W2 6LG. Copies of the accounts of Keolis (UK) Limited can be obtained from Northumberland House, 303-306 High Holborn, London WC1V 7JZ.

28 Subsequent events

Subsequent to the year-end, the company has been granted an extension to the initial franchise period, which was due to terminate on 31 January 2012.

On 5 August 2011 the First/Keolis Transpennine Limited franchise was extended until 1 April 2015. The company has accordingly secured the currently leased operational assets for a further term in order to operate the Franchise effectively. The terms are considered to be materially similar to those currently in place. The event creates no significant adjustments to the year-end balance sheet.