Stagecoach South Western Trains Limited

Financial statements for the 52 weeks ended 30 April 2011

Registered number: 5599788

Contents

Directors' report
For the 52 weeks ended 30 April 2011

The directors present their annual report on the affairs of the company, together with the audited financial statements and independent auditors' report, for the 52 weeks ended 30 April 2011.

Principal activities

The principal activity of the company is the provision of passenger railway services from London Waterloo across 13 counties of Southern England and the operation of the passenger railway service on the Isle of Wight between Ryde Pier Head and Shanklin. The activity includes the operation of 185 stations and 9 maintenance depots and approximately 1,700 train services are operated daily.

Review of business and future development

Stagecoach South Western Trains Limited has been operating the 'South Western' rail franchise since 4 February 2007. The franchise, let by the Department for Transport ('DfT'), serves routes previously operated by the South West Trains and Island Line franchises and is expected to run until February 2017. Certain assets, liabilities and rights of South West Trains Limited and Island Line Limited were accordingly transferred to Stagecoach South Western Trains Limited, by means of a Transfer Scheme made by the Secretary of State for Transport and effective from 4 February 2007.

Stagecoach South Western Trains Limited ("SSWT") has retained the strong South West Trains and Island Line brands.

Passenger income growth is to a large extent driven by the state of the economy. Commuter travel is closely correlated with Central London Employment (CLE) and there is a close link between leisure travel and GDP. The slow recovery in the economy has affected the business, however, the passenger growth that we have delivered (an increase in passenger miles of around 4% and revenue growth of around 6%) has exceeded economic indices and the performance of much of the retail sector. However, as a consequence of the recession, SSWT qualifies for revenue support payments under the terms of the Franchise Agreement as revenues remain below that forecast when the contract was originally awarded. As a consequence of an arbitration, the first revenue support payment was received in March 2011 and included retrospective payments back to 1 April 2010. The major cost efficiency review that commenced in 2008 continued throughout this financial year. To supplement efficiency savings that were implemented in prior years, and included in the core cost base, a number of new initiatives were either implemented in the year under review or developed to a stage where they will be implemented in the future. These measures ensured that the business continued to deliver a profit for the year whilst continuing to deliver improved levels of train performance and customer satisfaction.

Revenue Performance

As the economy has edged out of recession, we have seen revenue growth that reflects both volume and fares increases. Indeed our revenue growth has out-performed CLE and GDP index growth. Overall earnings growth was around 6%, of which around 4% can be attributed to volume growth, based upon passenger miles travelled. In the prior year the number of passenger miles travelled reduced by around 1%. The Franchise Agreement, and Franchise Premia profile, required us to increase regulated fares in January 2011 by 5.8% (July 2010 RPI index plus 1%). We understand that the Government intend to change the regime from January 2012 from RPI plus 1% to RPI plus 3% as part of a wider policy to shift the funding of the railways more towards the passenger. From that time, the incremental revenue generated through this change in regime will be passed back to Government.

These results reflect the full year effect of acceptance of Oyster Pay As You Go (PAYG) products on our services. This has been a very successful initiative with the take-up of this product being much higher than predicted and there is strong evidence that this product has encouraged modal shift. In the year under review, PAYG accounted for almost 20% of all in-boundary Travelcard earnings. 63% of all in-boundary point to point travel is now being undertaken through the PAYG product. Currently SSWT are unable to retail PAYG products, however we intend to introduce this facility for our customers during the 2011-12 financial year.

During the year, to improve our customer service, we have replaced many of our 'cash only' car park ticket machines with modern credit card enabled machines and we have extended the mobile phone car park ticketing facility. Both of these initiatives have been welcomed by our customers and there has been a steady migration to these products as customers find them significantly more user friendly.

During the year, in conjunction with Network Rail, extensive construction works were undertaken at Southampton Airport Parkway station to build a multi-storey car park that provides 378 car park spaces. This car park was officially opened on 27 May 2011. This car-park will provide much needed additional capacity and facilitate future revenue growth opportunities at this key station and additionally will provide environmental benefits.

Operational Performance

Our operational performance continues to be amongst the best achieved by all train operating companies (TOCs) with 93.3% of trains arriving on time in the year ended 30 April 2011 (as measured by the DfT's Public Performance Measure, 'PPM'). The comparable PPM at the end of the 2009-10 year was 93.0%. Our PPM performance compares against a London and South East commuter average of 91.1% and a national UK average for all franchised TOCs also of 90.8%.

We are striving to improve performance by a 'right-time' initiative where our performance is measured in terms of right time arrivals and not the traditional PPM measure (ie within 5 minutes). In the year ended 30 April 2011, 73.6% (2010: 70.7%) of our trains arrived at the right time which was an improvement of 290 bp on the previous year. This model is perceived to be the industry lead and the concept is now being rolled out within a number of other train operating companies.

Customer Service

Whilst delivery of high levels of operational performance is our customer's key requirement, we continue to strive to improve the quality of the end to end service provided to our customers. Despite delivering efficiency savings, our success in improving the overall quality of service has been reflected in National Passenger Survey results that have been published in the last year.

The very recently released Spring 2011 results showed overall passenger satisfaction at 85% which was 2% higher than the overall passenger London and South East score of 83%. This shows that Stagecoach South Western Trains passengers are amongst the most satisfied in the London and South East Region.

As one of the UK's largest and most complex passenger rail franchises, this is a significant achievement and we will continue to work hard to ensure that satisfaction amongst our customers continues to grow.

This has in part been achieved by reviewing previous survey results and identifying areas where our customers have expressed concerns. We have then introduced a number of initiatives to address those concerns.

We are continuing to progress investment in improving stations across our network. We are making rail travel better for our customers through a package of accessibility enhancements, additional car parking spaces and refurbished toilets and waiting rooms including significant investment in the refurbishment of facilities at many of our key stations (for example Richmond, Salisbury, Winchester and Bournemouth) . We have, through successful partnerships with third parties delivered schemes that deliver significant improvements for our disabled customers. Key partnership developments include a new DDA compliant ticket office and an access ramp at Hounslow, new station buildings and level access to platforms at Honiton and a new access entrance, including the provision of lifts at Clapham Junction.

We are committed to further integration with other types of transport and this includes improvements in station forecourts, such as Farnborough station where passengers now benefit from a new integrated bus/rail link. In conjunction with Cycle England and third party contributors, we have implemented cycle schemes with a cost of £1.25m across our network.

Customer communication remains a priority and we recognise the importance of getting timely and accurate information to our customers especially when it is most needed, during times of disruption. We are working closely with Network Rail to improve the information facilities at our stations. We have invested in an industry-leading software innovation at London Waterloo to improve passenger information during times of major disruption.

In the 2007 White Paper, the Labour government announced that they will be facilitating the purchase of additional trains to alleviate capacity constraints across the railway network. The Coalition government still intend to progress these schemes and SSWT are currently preparing a further proposal to the DfT (under the High Level Output Specification initiative) to increase capacity on parts of the SSWT network. This proposal will be submitted in August 2011.

SSWT Arbitration

As reported in prior years, we were in dispute with the Department for Transport over the determination of franchise payments, including revenue support payments. The disputes were submitted for arbitration under the Railway Industry Dispute Resolution and we welcomed the arbitrator's decision.

There were two disputes that were subject to arbitration: one related to the period considered when calculating revenue support and the other related to the treatment of certain elements of car park revenue in determining franchise payments. The arbitrator ruled in favour of SSWT on the key issue of revenue support timing and clarified what elements of car park revenue are included in the revenue support calculation.

The initial revenue support payment was received in March 2011 and covered the period from 1 April 2010 to 5 March 2011. Thereafter monies due will be paid on a 4-weekly basis. The financial statements reflect a full year revenue support payment from the DfT of £68.3m.

The outcome of the "car park revenue" dispute will, all other things being equal, mean that future profits will be less than they would have been had the arbitrator awarded in our favour.

Results and dividends

Turnover (passenger revenue) for the 52 weeks ended 30 April 2011 was £746.0m which reflects year on year turnover growth of around 6%.

Profit after tax for the financial period amounted to £35.2m and has been appropriated as follows:

	2011
	£000
Profit for the financial period	**35,179**
Dividend: £150,000 per ordinary share	**(30,000)**
Retained profit for the year ended 30 April 2011	**5,179**

Interim dividends of £30m have been declared (2010: £nil).

The results include Franchise Grant payment of £253.4m paid to the DfT (2010: £145.7m). This grant value reflects a payment to the DfT of £110.4m (2010: £126.3m) in respect of a change to the charging regime for Network Rail costs following a Regulatory Review. The payment also included payment of £7.9m to the DfT in respect of the Network Rail rebate (2010: £nil). The following table sets out the main components of franchise grant payment:

Franchise Grant payments	**2011**	**2010**
	£000	**£000**
Franchise Premia	233,428	174,700
Network Rail rebate payable to DfT	7,886	-
Other	12,113	(29,000)
Total	**253,427**	**145,700**

The Company made charitable donations amounting to £2,547 during the year (2010: £2,622). The donations made during the reporting period were to the following beneficiaries: £1,272 to Help for Heroes; £352 to Woking Homes and £923 to Naomi House Children's Hospice.

Health and Safety

Health and safety is at the core of our operations and the safety and security of both our customers and employees is fundamental to our business.

Safety is part of a well-defined risk management process within the business and the effectiveness of our safety processes is monitored through a Safety sub-committee of the Stagecoach South Western Trains Board. This sub-committee meets on a 4-weekly basis and all operational directors are members of this committee.

Rail travellers on the South West Trains network are benefiting from a safe environment on our state-of-the-art Desiro trains and refurbished Class 455 units. All South West Trains rolling stock is fitted with an automatic Train Protection Warning System.

The company is particularly focused on the management of significant risks such as signals passed at danger ('SPAD'), passenger safety such as major injuries, slips, trips and falls and employee safety such as major injuries, physical assaults and lost time accidents, through the setting of annual safety objectives in the Safety & Environment Plan, which is aligned to the Rail Safety Standards Board (RSSB) Strategic Safety Plan. Progress against these objectives, and overall safety performance, is reviewed at the Board sub-committee meeting.

Environment

South West Trains takes environmental responsibilities very seriously and we have worked hard to improve our environmental performance. Our environmental strategy is based not only on our responsibility to minimise our own environmental impact, but also that we have a key role to play in getting people out of their cars and on to public transport. Both of these aspirations are at the heart of how we operate and integral to our overall business plan. Each year we identify a number of challenging environmental objectives and targets with the aim of continually improving our performance.

<u>Energy</u>
As part of Stagecoach Group we have committed to reducing our 'traction' carbon emissions by 3.3% and 'non-traction' carbon emissions by 7.5% by 2014 – equating to around 42,000 tonnes of carbon.

After a successful trial, we now have two-thirds of our 458 fleet using regenerative braking or 'regen'. We are currently trialling the same technology on our 444 and 450 fleets. Traction energy accounts for approximately 80% of our overall energy consumption, making it a vital area for improvement. An eco-driving strategy has also been developed, so our train drivers can drive in an energy efficient way. All new drivers now have eco-driving training on our driver simulators and existing drivers get the same simulator package as part of their on-going training.

We are also seeking to make our stations, depots and offices as energy efficient as possible by investing in a series of schemes to improve lighting and heating systems. Intelligent heating controls installed at our Bournemouth, Salisbury and Wimbledon traincare depots has resulted in a 40% reduction in gas use in year. At our stations we have worked on a number of initiatives including installing heating and lighting controls and replacing inefficient heating appliances. This year we've committed further funding to implement further improvements such as splitting station floodlights from the under-canopy lighting circuit.

In 2010 intelligent lighting controls were installed across 6 of our stations, which were amongst the first in the UK to install this technology. Intelligent lighting means that sensors can automatically increase or decrease their light output depending on the amount of light around them.

Waste

Reducing the amount of waste we send to landfill is not only good for the environment, but with the ever-increasing landfill tax, it also helps us to significantly reduce our costs.

All of our traincare depots now operate a manual segregation of waste streams, which has resulted in almost 70% of all waste being recycled or re-used.

Over the past 12 months our stations have seen a dramatic increase in recycling, with over 50% diverted in April 2011, compared to just 16% in April 2010. This is due to introducing 'mixed recycling' across a number of our stations. Owing to this success, in May 2011 mixed recycling collections have now been rolled out across all of our stations, which will see even more waste diverted from landfill.

Environmental Awareness

Improving the awareness and understanding of both our staff and passengers is vital and just as important as making savings. We held our 4th Green Week event this year, which for the first time was aimed at our passengers. Engagement events were held at 5 of our stations, where other parties, such as our new waste contractor and local councils were also involved.

Modal Shift

To encourage our passengers to reduce their car dependency, over 1,500 new cycle spaces have been installed across the network. Other exciting transport projects include the cycle hire at Richmond and the installation of a Brompton Bike dock at Guildford.

Directors and their interests

The directors of the company during the period and up to the date of this report were as follows:

Martin A Griffiths
Ian Johnston
Ross J Paterson
Andrew C West
Andrew C Pitt

Employees

We have delivered some strong results on our people agenda over the last 12 months. Employee engagement reached an all time high for the current franchise and attendance levels comfortably exceeded 97% MAA which again, is a business best.

Work is well underway to prepare the business for the triennial Investors in People (IiP) accreditation review scheduled for the Autumn of 2011. Particular focus is being given to improving communication to our people and increasing the amount of face to face time that local managers spend with their teams.

Our Health and Wellbeing strategy saw the roll out of a number of health fairs at stations and depots and we continued with our annual flu jab programme. New arrangements for instant drug and alcohol testing were piloted and introduced; the effect has been to reduce workforce down-time as a result of the testing regime.

A considerable amount of time and energy has been spent creating a leadership programme that all of our first level leaders will attend. Our recruitment and vocational training teams have worked hard to deliver qualified people, on time to support our manpower plans. As a City and Guilds accredited NVQ Awarding Centre, we continue to offer our people the opportunity to obtain qualifications in Rail Operations and Passenger Services.

The company started developing a new intranet system in the Autumn of 2010 for roll out in the summer of 2011. Once complete, the system will vastly improve the reach of our internal communications channels and enable us to communicate quickly with our people. As well as this, the intranet will fulfil a document management role for our engineering teams and allow rosters to be posted for on-train staff.

We continue to operate 3 Open Learning Centres. The centres are able to offer a range of skills for life including computer skills, personal development and language courses; free of charge to our employees and their families.

Several changes in employment legislation have necessitated a review of some of our working practices. The introduction of the Equality Act and abolition of the default retirement age (DRA) have resulted in reviews of our policies and procedures which have been amended, where necessary, to support the changes.

Collectively these initiatives provide valuable ongoing support to the business in meeting our wider objectives of delivering a safe, high performing and profitable rail network.

We are committed to ensuring that all individuals are treated fairly and are valued equally, irrespective of disability, race, gender, health, social class, sexual orientation, marital status, nationality, religion or belief, employment status or age.

Key Performance Indicators

In addition to monitoring financial performance, the company uses a wide range of key performance indicators (KPIs) to assess the effectiveness of performance in key activities. The most important of these KPIs focus on the following key areas:

- Safety
- Service Delivery
- Customer Service

Safety

In addition to providing a reliable train service, we seek to ensure the safety of our customers, staff and contractors. Safety is monitored in various ways, including through a Board Sub-Committee and a range of KPIs. The most important KPIs are reported below:

	Target (to be achieved by December 2012)	Period ended 30/4/2011 (Moving Annual Average)	Period ended 1/5/2010 (Moving Annual Average)	Period ended 2/5/2009 (Moving Annual Average)
Passenger movement accidents per 1 million passenger miles	0.1	0.1	0.1	0.1
Passenger non-movement accidents per 1 million passenger journeys (slips, trips and falls on stairs and platforms)	1.0	1.0	1.0	1.3
Workforce lost time accidents per 1,000 employees	1.6	1.7	1.6	1.7
Employee physical assaults per 1,000 employees	2.5	2.2	2.8	2.6

Service Delivery

We aim to provide a reliable service and our measures of service delivery include:

Punctuality measured on the basis of the DfT's Public Performance Measure (moving annual average) being the percentage of trains that arrive at their destination within 5 minutes of their scheduled arrival time, having called at all scheduled stations.

	Target (MAA by 31 March 2012)	Period ended 30/4/2011 (Moving Annual Average)	Period ended 1/5/2010 (Moving Annual Average)	Period ended 2/5/2009 (Moving Annual Average)
Public Performance Measure	93.3%	93.3%	93.0%	93.3%

Customer Service

We aim to provide high levels of customer service across all activities of the company.

The very recent Spring 2011 passenger survey shows Stagecoach South Western Trains passengers are amongst the most satisfied in the London and South East Region. Overall satisfaction was 85% compared to the London and South East average of 83%. Our measures of service Delivery include:

- The twice-annual National Passenger Survey measured on the basis of a number of criteria set by the DfT that encompass key customer service activities of the business; and

- The number of customer complaints that we receive

NPS (Autumn Results)	Target	Period ended 30/4/2011	Period ended 1/5/2010	Period ended 2/5/2009
National Passenger Survey (Autumn survey's)	To reach the NPS "Overall Satisfaction" Survey score of 88%	87%	86%	87%
Customer Complaints	-	1,555 (MAA)	1,762 (MAA)	1,690 (MAA)

Financial risk management

The company's activities expose it to a variety of financial risks including the effects of changes in interest rates, credit risk and commodity prices. The effects of changes in interest rates and commodity prices are managed at a group level by a central group treasury function. The company has adopted policies that require appropriate credit checks to be performed on potential customers before sales are made.

Principal risks and uncertainties affecting the Company

SSWT, along with most other rail businesses in the UK is facing a challenging operating environment. The impact of the recession meant that income levels fell considerably below the levels assumed when the SSWT contract was awarded and it is unlikely that this position will be recovered over the remaining franchise period. Whilst revenue delivered in 2010-11 was higher than originally projected at the start of the year, we are concerned at the fragility of the economy. This income shortfall is partly mitigated through the revenue support mechanism contained in the Franchise Agreement, however SSWT will still incur the impact of more than 20% of all income shortfalls against the original bid income projection. With a fixed premia payment profile, a high fixed cost base, and commitments contained in the contract between SSWT and the DfT that give little scope for reducing the timetable operated, the company is heavily exposed to macroeconomic conditions. Recent world events have led to a significant increase in commodity prices and we are exposed beyond 2011-12 for electricity (most of our fleet are electric units) and diesel fuel. We have taken action to mitigate the impact of falling revenues, including a package of measures to reduce annualised costs and to achieve sensible efficiencies. The management team are constantly pursuing new efficiency opportunities, however these initiatives are becoming more difficult to identify and implement.

Supplier payment policy

It is the company's policy to settle the terms of payment with suppliers when agreeing each transaction or series of transactions, to ensure suppliers are aware of these terms and to abide by them. Trade creditors at the end of the period represented 24 days (2010: 25 days) purchases.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 judgments 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Indemnification of directors and officers

The Company's ultimate parent maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against the directors of the Company. The ultimate parent has indemnified each of the Company's directors and other officers of the Company against certain liabilities that may be incurred as a result of their offices.

Statement of disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved, the following applies:

- So far as the directors are aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditors are unaware; and
- Each of the directors has taken steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and the directors have resolved that they be appointed as auditors for next year.

Friars Bridge Court
41-45 Blackfriars Road
London
SE1 8NZ

14 July 2011

On behalf of the Board

A C West

Company Secretary

Independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STAGECOACH SOUTH WESTERN TRAINS LIMITED

We have audited the financial statements of Stagecoach South Western Trains Limited for the period ended 30 April 2011, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2011 and of its profit for the period 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 period for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report (continued)

Matters on which we are required to report by exception

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

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

Martin Cowie

Martin Cowie (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

14 July 2011

Profit and loss account

For the 52 weeks ended 30 April 2011

	Note	**30 April 2011**	1 May 2010
		£000	£000
		52 weeks	52 weeks
Turnover	2	**746,008**	702,730
Other operating (costs)/income		**(136,687)**	26,866
Operating costs		**(561,782)**	(705,471)
Operating profit	3	**47,539**	24,125
Finance income (net)	4	**3,818**	2,193
Profit on ordinary activities before taxation		**51,357**	26,318
Tax on profit on ordinary activities	7	**(16,178)**	(7,406)
Profit for the financial period		**35,179**	18,912

The results for the period are derived wholly from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the period stated above and their historical cost equivalents.

Balance sheet
As at 30 April 2011

	Note	30 April 2011	1 May 2010
		£000	£000
		52 weeks	52 weeks
Fixed assets			
Investments	9	-	-
Intangible assets	10	6,236	7,316
Tangible fixed assets	11	32,085	15,835
		38,321	23,151
Current assets			
Stock	12	1,875	1,966
Debtors: amounts falling due within one year	13	145,130	139,088
Debtors: amounts falling due after more than one year	13	26	30
Deferred tax asset	14	4,517	6,287
Cash at bank and in hand		116,857	145,729
		268,405	293,100
Creditors: amounts falling due within one year	15	(259,167)	(272,287)
Net current assets		9,238	20,813
Total assets less current liabilities		47,559	43,964
Provision for liabilities	16	(11,025)	(12,090)
Net assets excluding pension liability		36,534	31,874
Pension liability, net of deferred tax	17	(27,350)	(22,176)
Net assets including pension		9,184	9,698
Capital and reserves			
Called up share capital	18	-	-
Share premium	18	200	200
Contribution reserve	19	4,339	3,210
Profit and loss account	20	4,645	6,288
Total Shareholder's funds		9,184	9,698

The financial statements on pages 14 to 37 were approved by the board of directors on 5 July 2011.

Signed on behalf of the Board

A C West

A C West
Director
14 July 2011

Statement of total recognised gains and losses

For the 52 weeks ended 30 April 2011

	Note	30 April 2011 £000 52 weeks	1 May 2010 £000 52 weeks
Profit for the financial period		**35,179**	18,912
Recognition of net actuarial loss on defined benefit pension schemes	21 (b)	**(8,386)**	(15,366)
Recognition of tax on net actuarial losses on defined benefit pension schemes	14	**1,564**	4,302
Total recognised gains relating to the period		**28,357**	7,848

Reconciliation of movements in shareholders' funds

For the 52 weeks ended 30 April 2011

	Note	30 April 2011 £000 52 weeks	1 May 2010 £000 52 weeks
Profit for the financial period		**35,179**	18,912
Dividends	5	**(30,000)**	-
Retained profit for the financial period		**5,179**	18,912
Recognised loss on defined benefit pension schemes relating to the period		**(6,822)**	(11,064)
Share based payments charge	19	**1,129**	1,763
Net (decrease)/increase in shareholders' funds		**(514)**	9,611
Opening shareholders' funds		**9,698**	87
Closing shareholders' funds		**9,184**	9,698

1. Accounting policies

The principal accounting policies applied consistently throughout the financial period and the preceding financial period are described below:

a) Basis of accounting

These financial statements are prepared on the going concern basis, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

b) Intangible assets

Intangible assets acquired separately from a business combination are capitalised at cost.

(i) Rail franchise pension intangible asset

Where the conditions relating to the award of a franchise require the company to assume legal responsibility for any pension liability that exists at that point in time, the company recognises an asset or liability representing the fair value of the related net pension surplus or deficit that the group expects to fund during the franchise term. When a pension deficit exists at the start of the franchise, a corresponding intangible asset is recognised, reflecting a cost in acquiring the right to operate the franchise.

Intangible assets with a finite life, such as intangible assets recognised on commencement of a rail franchise, are amortised annually over their expected useful lives.

The initial cost recognised is the aggregate amount paid plus the fair value of any other consideration given to acquire the asset.

(ii) Rail franchise transition costs

The franchise transition cost represents the costs associated with the initiation of the new franchise. In accordance with UITF Abstract 34, 'Pre-contract costs', the costs associated with securing new rail franchises are expensed as incurred, except where it is virtually certain that a contract will be awarded in which case they are recognised as an asset and are charged to the profit and loss account over the life of the franchise.

Amortisation of intangible assets is calculated on the straight-line method to write-off the cost of each asset over their estimated useful lives as shown below:

- Rights to operate rail franchise - over the life of the franchise (10 years from February 2007 to February 2017)
- Franchise transition costs - over the life of the franchise (10 years from February 2007 to February 2017)

1. Accounting policies (continued)

c) Tangible fixed assets

Tangible fixed assets comprise property, plant and equipment at original historic cost, net of depreciation, as set out in note 11. Tangible fixed assets also include "Assets under construction".

Depreciation is provided at rates calculated to write off the cost of each asset on a straight-line basis over its estimated life. Estimated useful lives are as follows:

Buildings - Short Term Leasehold	3 to 10 years
Plant, fixtures and fittings	3 to 10 years
Assets Under Construction	Nil

d) Lease obligations

Rentals under operating leases are charged on a straight-line basis over the lease term.

e) Stocks

Stocks are stated at the lower of cost and net realisable value. Stock consists of engineering spare parts, fuel and consumable stores. Provision is made for obsolete, slow-moving or defective items where appropriate.

f) Taxation

In accordance with FRS 16, corporation tax payable is provided on taxable profits at the current rate. Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the pre-tax item.

In accordance with FRS 19, full provision is made for deferred tax on a non-discounted basis.

g) Turnover

Passenger income comprises amounts attributed to the company by the Rail Settlement Plan Limited's income allocation systems utilised to allocate principally passenger receipts, based on detailed surveys of passenger flows. The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket. Turnover represents the amount receivable for goods and services provided in the normal course of business, net of VAT.

h) Other operating income/costs

Other operating income/costs comprise:

- Receipts from or payments to the Department for Transport ("DfT") in respect of the operation of rail franchises in the UK.
- Other income derived from property letting, advertising, maintenance and other services that are recognised in the profit and loss account upon the completion of the service.

Amounts receivable from or payable to the DfT for financial support/(premium) in respect of the operation of rail franchises in the UK are recognised to the income statement in the period in which the related expenditure is recognised in the income statement or where they do not relate to any specific expenditure, in the period in respect of which the amount is payable or receivable.

1. Accounting policies (continued)

i) Franchise rebate

Under the South Western Trains Franchise Agreement with the DfT, amounts are due from/to the DfT based on the actual revenue earned in the period compared with the amount which was expected to be earned in the period at commencement of the Franchise. The amount payable/receivable for the period is calculated in accordance with the Franchise Agreement and is disclosed within Operating Costs/Income in the profit and loss account.

j) Cashflow statement

Stagecoach South Western Trains Limited is not required to prepare a cash flow statement under FRS 1 (revised 1996), as it is a wholly owned subsidiary undertaking of Stagecoach Group plc whose consolidated financial statements, which are publicly available, include a consolidated cash flow statement.

k) Retirement benefit obligations

Both South West Trains and Island Line operated under the terms of a franchise agreement that expired on 4 February 2007 and from that date they operated under one, new franchise agreement, Stagecoach South Western Trains.

Stagecoach South Western Trains became the relevant Train Operating Company as designated employer for both the South West Trains section and the Island Line section of the Railway Pension Scheme and must make contributions during its franchise term to both sections in accordance with the contribution schedule agreed between South West Trains/Island Line and the Trustees in 2006.

On transfer of a franchise, the only obligation of the franchisee is to have paid the required contributions during the franchise period. Therefore the surplus or deficit in the section existing at the end of the franchise is taken on by subsequent franchisee(s). As the franchisee should have no obligation in relation to pension contributions after the expiry date of the franchise, it may be considered appropriate that only the proportion of the deficit expected to be 'made good ' by the franchisee over the franchise term is recognised on commencement of the franchise and at subsequent balance sheet dates. At the commencement of the Stagecoach South Western Trains franchise a deficit was recognised in respect of the new franchise.

Stagecoach South Western Trains has no rights or obligations in respect of the sections of the RPS pension scheme following expiry of the related franchises. Therefore the liability (or asset) recognised for relevant sections of the RPS only represents that part of the net deficit (or surplus) of each section that the employer is obliged to fund (or expected to recover) over the life of the franchise to which the section relates. Where the surplus is fully recoverable over the life of the franchise, no restriction to the surplus is made.

The company accounts for pensions and similar benefits in accordance with FRS 17 "Retirement Benefits". In respect of defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at market value. The operating costs of such plans are included within operating profit and the financing costs are included in finance income; service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

A full actuarial valuation is undertaken triennially for RPS with the surplus/deficit being updated annually by independent actuaries using the projected unit credit method. The present value of the scheme obligations is determined by discounting the estimated future cash outflows using interest rates of "AA"-rated corporate bonds, which have terms to maturity equivalent to the terms of the related obligations.

1. Accounting policies (continued)

l) Government grants

Revenue based government grants are credited to the profit and loss account in the period of receipt so as to match them with the expenditure towards which they are intended to cover.

m) Related party transactions

As a wholly owned subsidiary undertaking of Stagecoach Group plc, the company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' from disclosing transactions with wholly owned fellow group undertakings.

n) Dividends

Dividends on ordinary shares are recorded in the company's financial statements in the period in which they are approved by the company's shareholders, or in the case of interim dividends, in the period in which they are paid.

o) Share-based payments

Certain of the company's employees are granted equity settled share based payments by the parent company. The company has applied the optional exemption contained within FRS 20, which allows it to apply the standard only to share options granted after the 7 November 2002 that have not vested by 1 May 2005.

i) Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of failure to satisfy a non-market based vesting condition. None of the Stagecoach Group plc's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is estimated by the use of the Black-Scholes pricing model.

At each balance sheet date before vesting the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

ii) Cash-settled transactions

The cost of cash settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

Fair value for cash-settled share based payments (being only those that relate to the Long Term Incentive Plan) is estimated by use of a simulation model.

During the vesting period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

There were no accruals for the period ended 30 April 2011 (1 May 2010: £nil).

Notes to the financial statements (continued)
For the 52 weeks ended 30 April 2011

1. Accounting policies (continued)

o) Share-based payments (continued)

iii) Choice of Settlement

The company can choose to settle awards under the Long Term Incentive Plan in either cash or equity although it currently intends to settle all such awards in cash. Awards under the Long Term Incentive Plan are accounted for as cash-settled transactions (see above).

Additional disclosures regarding the share schemes operated by Stagecoach Group plc, in which some employees of Stagecoach South Western Trains Limited participate, are provided in the accounts of Stagecoach Group plc.

p) Provision for liabilities

The company receives claims from customers and employees for incidents resulting in personal injury. Provision is made for the estimated cost to the company to settle claims for incidents that fall below the insurance deductible and occurring prior to the balance sheet date.

Notes to the financial statements (continued)
For the 52 weeks ended 30 April 2011

2. Turnover

The turnover and profit on ordinary activities before taxation were derived wholly from the company's principal activities within the United Kingdom.

3. Operating profit

The operating profit for the period is stated after charging/(crediting):

		30 April 2011	1 May 2010
		£000	£000
		52 weeks	52 weeks
Staff costs (note 6e)		174,930	171,523
Depreciation (note 11)		1,613	890
Impairment of fixed assets		-	16,014
Auditors' remuneration – for audit of the Company's accounts		84	80
Network Rail charges:	- Track access	64,279	64,986
	- Variable track access	12,117	11,971
	- Station leases/long-term station charges/access	26,282	24,974
	- Depot leases	8,660	8,540
	- Electric traction charge	29,292	41,449
	- Other performance recoveries	(2,506)	(1,065)
Operating lease rentals	- Passenger rolling stock	103,422	101,897
Revenue grant		253,427	145,700
Revenue support/franchise rebate		(68,321)	(7,846)
Rental income		(5,603)	(5,267)
Repairs and maintenance		13,774	8,248
Amortisation of intangible assets (note 10)		1,080	1,080

Other operating income comprises revenue incidental to the company's principal activity. It includes rental income, advertising income, station access income and commissions received.

Non-audit fees of £9,000 (2010: £6,500) were payable to PricewaterhouseCoopers LLP during the year.

4. Finance Income (net)

	30 April 2011	1 May 2010
	£000	£000
	52 weeks	52 weeks
Bank deposits and short term loans	1,160	2,090
Group interest receivable	249	252
Interest paid	(1,079)	(972)
Bank charges	(90)	(93)
Net pension finance income (note 21b):		
- Expected return on assets	19,776	15,344
- Interest on pension scheme liabilities	(21,007)	(16,823)
- Unwinding of franchise adjustment	4,809	2,395
	3,818	2,193

5. Dividends

	30 April 2011 £000 52 weeks	1 May 2010 £000 52 weeks
Interim dividend: £150,000 per ordinary share (2010: £nil)	30,000	-

6. Information regarding directors and employees

a) Directors emoluments

Emoluments of directors were:

	30 April 2011 £000 52 weeks	1 May 2010 £000 52 weeks
Aggregate emoluments	496	627

During the year no directors exercised share options (2010: 4).

b) Pensions

The number of directors who were members of the South West Trains pension scheme was as follows:

	30 April 2011 52 weeks Number	1 May 2010 52 weeks Number
Defined benefit schemes	3	3

c) Highest paid director

Directors' emoluments (including benefits in kind but excluding pension contributions) included:

	30 April 2011 £000 52 weeks	1 May 2010 £000 52 weeks
Total emoluments	213	185

The highest paid director in the period ended 30 April 2011 had £53,156 accrued pension entitlement under the company's defined benefit scheme (2010: £40,646) and £46,363 accrued lump sum entitlement at 30 April 2011 (2010: £25,907).

d) The average monthly number of persons employed by the company (including executive directors) during the financial period is analysed below:

By activity	30 April 2011 52 weeks Number	1 May 2010 52 weeks Number
Operations/Engineering	2,655	2,750
Commercial/Retail	1,553	1,631
Management/Administration	145	151
	4,353	4,532

6. Information regarding directors and employees (continued)

e) Employment costs of all employees (including executive directors) were as follows:

	30 April 2011	1 May 2010
	£000	£000
	52 weeks	52 weeks
Wages and salaries	**141,623**	143,133
Social security costs	**10,651**	10,470
Pension costs	**21,527**	16,156
Share based payments	**1,129**	1,763
	174,930	171,523

7. Tax on profit on ordinary activities

a) Charge for the period	30 April 2011	1 May 2010
	£000	£000
	52 weeks	52 weeks
Current tax:		
UK corporation tax on profits of the period	**13,548**	9,808
Adjustments in respect of prior year	**281**	(113)
Total current tax	**13,829**	9,695
Deferred tax:		
Origination and reversal of timing differences	**1,546**	(1,720)
Adjustments in respect of prior periods	**803**	(569)
Total deferred tax	**2,349**	(2,289)
Tax on profit on ordinary activities	**16,178**	7,406

b) Factors affecting the tax charge for the period	30 April 2011	1 May 2010
	£000	£000
The tax assessed for the period is higher than the standard rate of corporation tax in the UK (27.84%). The differences are explained below:	52 weeks	52 weeks
Profit on ordinary activities before taxation	**51,357**	26,318
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 27.84% (2010: 28%)	**14,298**	7,369
Effect of:		
Non tax deductible expenditure and other permanent differences	**142**	298
Treatment of inter-company transactions	**(13)**	(33)
Capital allowances for the period (in excess of)/ lower than depreciation	**(547)**	2,941
Pension cost relief in excess of pension cost charge	**(620)**	(1,179)
Share based payments	**288**	412
Adjustments to tax charge in respect of previous periods	**281**	(113)
Current tax charge for the period (note 7a)	**13,829**	9,695

7. Tax charge on profit on ordinary activities (continued)

c) Factors that may affect future tax charges

In the 2011 budget on 23 March 2011, the UK Government announced its intention to reduce the UK Corporate Income Tax rate to 23% by 1% per annum over a three-year period. At 30 April 2011 no change in the rate of tax was substantively enacted in law, but a 1% decrease in the rate to 25% is expected to be enacted in the year ending 30 April 2012. Had this change of rate to 25% been substantively enacted as of the balance sheet date, the estimated impact on the balance sheet would be a reduction in the deferred tax liability of £0.543m from £14.126m to £13.583m.

8. Operating leases and similar commitments

Stagecoach South Western Trains Limited has contracts with Network Rail for access to the railway (track) infrastructure, leasing of stations and depots. The company also leases rolling stock and ticket machines. Annual commitments under the rolling stock operating leases expiring as follows are:

	2011	2010
	£000	£000
Under one year	**-**	-
Between one year and five years	**102,843**	-
Over five years	**-**	102,843

Annual commitments under other operating leases expiring as follows are:

	2011		2010	
	£000		£000	
	Land & Buildings	**Other**	Land & Buildings	Other
Under one year	**147**	**-**	-	-
Between one year and five years	**91,717**	**3,186**	59,961	2,664
Over five years	**570**	**-**	39,200	600
	92,434	**3,186**	99,161	3,264

9. Investments

The company holds the following investments:

5.0% (one 4p share) of the issued share capital of ATOC Limited. The principal activity of ATOC Limited is a trade association promoting passenger transport. ATOC Limited is incorporated in the UK.

5.3% (one 4p share) of the issued share capital of Rail Settlement Plan Limited. The principal activity of Rail Settlement Plan Limited is to provide a settlement service to the Railway Industry. Rail Settlement Plan Limited is incorporated in the UK.

5.3% (one 4p share) of the issued share capital of Rail Staff Travel Limited. The principal activity of Rail Staff Travel Limited is to provide a service to give railway employees access to train operating companies passenger services. Rail Staff Travel Limited is incorporated in the UK.

5.3% (one £1 share) of the issued share capital of NRES Limited. The principal activity of NRES Limited is to provide a national rail telephone enquiry service. NRES Limited is incorporated in the UK.

All these shareholdings were transferred to the company on 4 February 2007 from one of the previous franchise operators, South West Trains Limited.

9. Investments (continued)

5.3% (one £1 share) of the issued share capital of Train Information Services Limited (TIS). The principal activity of TIS Limited is to provide rail enquiries other than telephone enquiries, which are handled by NRES Limited. TIS Limited is incorporated in the UK.

The shareholding in Train Information Services Limited was issued on 4 April 2011.

The company is a member of Tribute Limited, Gemini Applications Limited and Network Rail Limited with liability limited by guarantee to £1 in each. The company is also a member of Rail Safety and Standards Board Limited with liability limited by guarantee to £100,000.

10. Intangible assets

	Franchise transition costs	Rail franchise	**Total Intangible Assets**
	£000	£000	**£000**
Cost			
At 1 May 2010 and 30 April 2011	274	10,532	**10,806**
Amortisation			
As at 1 May 2010	88	3,402	**3,490**
Amortisation for the period	27	1,053	**1,080**
As at 30 April 2011	115	4,455	**4,570**
Net Book Value at 1 May 2010	186	7,130	**7,316**
Net Book Value at 30 April 2011	159	6,077	**6,236**

The Railway Franchise intangible asset relates to the pension deficit in existence at the start of the franchise, for which a corresponding intangible asset is recognised, reflecting a cost in acquiring the right to operate the franchise for the period to February 2017.

The Franchise Transition Costs intangible asset relates to the costs associated with the initiation of the new franchise.

The amortisation of the intangible assets is included within operating costs in the profit and loss account.

Notes to the financial statements (continued)
For the 52 weeks ended 30 April 2011

11. Tangible fixed assets

	Buildings - Short Term Leasehold	Plant, fixtures & fittings	Assets under construction	**Total Fixed Assets**
	£000	£000	£000	**£000**
Cost				
At 1 May 2010	5,188	4,952	25,323	**35,463**
Additions	4	1,094	25,486	**26,584**
Disposals	(8)	(108)	(8,631)	**(8,747)**
Transfers	416	327	(743)	**-**
At 30 April 2011	5,600	6,265	41,435	**53,300**
Depreciation				
At 1 May 2010	1,761	1,853	16,014	**19,628**
Charge for the period	751	862	-	**1,613**
Disposals	(1)	(25)	-	**(26)**
At 30 April 2011	2,511	2,690	16,014	**21,215**
Net Book Value at 1 May 2010	3,427	3,099	9,309	**15,835**
Net Book Value at 30 April 2011	3,089	3,575	25,421	**32,085**

It is the intention of Stagecoach South Western Trains Limited to sell certain assets to Network Rail under an Asset Purchase Agreement once the projects are completed. The cost of assets, which are subsequently to be sold, amounted to £19.4m at 30 April 2011 (2010: £ 9.3m). These assets are classified as "Assets under construction" at both balance sheet dates and have not therefore been depreciated.

12. Stock

	2011	2010
	£000	£000
Raw materials and consumables	**1,875**	1,966

There is no material difference between the balance sheet value of stocks and their replacement cost.

13. Debtors

	2011	2010
	£000	£000
Amounts falling due within one year:		
Trade debtors	**67,000**	68,837
VAT debtors	**6,237**	5,238
Prepayments and accrued income	**12,680**	11,110
Amounts due from fellow group undertakings	**46,562**	46,026
Other debtors	**12,651**	7,878
	145,130	139,088
Amounts falling due after more than one year:		
Employee loans	**26**	30

13. Debtors (continued)

The employee loans represent interest free loans given to employees upon relocation, these loans are repayable over a term of up to 25 years. No director has benefited from these loans.

The amounts due from fellow group undertakings primarily relate to a loan to Stagecoach Group plc of £46.0m (2010: £45.0m) which is payable on demand and attracts interest based on one month London Inter Bank Bid Rate (LIBID) and amounts owed from Stagecoach Group plc for corporation tax £0.2m (2010: £0.2m). The corporation tax receivable and all other amounts due from group undertakings are payable on demand and do not attract interest.

14. Deferred tax asset

	2011	2010
	£000	£000
Accelerated capital allowances	**2,356**	3,554
Other timing differences	**2,161**	2,733
Deferred tax asset excluding that related to pension liability	**4,517**	6,287
Deferred tax asset related to pension liability (note 21b)	**9,609**	8,624
Deferred tax asset	**14,126**	14,911
Asset as beginning of the period	**14,911**	8,320
Deferred tax (charge)/ credit in profit and loss account (note 7a)	**(2,349)**	2,289
Deferred tax credited to the statement of total recognised gains and losses	**1,564**	4,302
Total asset at end of the period	**14,126**	14,911

15. Creditors: amounts falling due within one year

	2011	2010
	£000	£000
Trade creditors	**79,227**	82,055
Deferred season ticket income	**46,980**	44,219
Accruals and deferred income	**116,330**	130,014
Corporation tax creditor	**8,049**	5,334
Amounts due to fellow group undertakings	**4,242**	6,131
Other tax and social security	**4,339**	4,534
	259,167	272,287

The amounts due to fellow group undertakings relate to management recharges which are payable on demand and do not attract interest.

16. Provisions for liabilities

	Restructuring provision	**Claims provision**	**Total 2011**
	£000	£000	£000
At 1 May 2010	1,634	10,456	**12,090**
Charged/(credited) to the profit and loss account	967	(243)	**724**
Utilised in period	(1,112)	(677)	**(1,789)**
At 30 April 2011	**1,489**	**9,536**	**11,025**

16. Provisions for liabilities (continued)

A provision of £1.5m (2010: £1.6m) has been made in respect of a re-organisation within the company. The provision is expected to be utilised over the next year.

The company receives claims from customers and employees for incidents resulting in personal injury. Provision of £9.5m (2010: £10.5m) is made for the estimated cost to the company to settle claims for incidents that fall below the insurance deductible, which have occurred prior to the balance sheet date. The provision is expected to be utilised over the next 3-5 years.

17. Pension liability, net of deferred tax

	2011 **£000**	2010 £000
Gross pension liability	**(36,959)**	(30,800)
Deferred tax asset (note 14)	**9,609**	8,624
Pension liability, net of deferred tax	**(27,350)**	(22,176)

Deferred tax is recognised only on the subsequent movements in the pension liability as shown above.

See note for 21(b) for further details about accounting for pensions.

18. Called up share capital and share premium

	2011 **£**	2010 £
Allotted, called-up and paid:		
200 ordinary shares of £1 each	**200**	200

	Number of Shares	Ordinary Shares	Share Premium	**Total**
		£	£	**£**
As at 1 May 2010 and 30 April 2011	200	200	199,800	200,000

19. Contribution reserve

The movement in the contribution reserve for the period can be analysed as follows:

	2011 **£000**
As at 1 May 2010	3,210
Share based payments charge	1,129
As at 30 April 2011	**4,339**

20. Profit and loss account

The movement in the profit and loss account for the period can be analysed as follows:

	2011
	£000
As at 1 May 2010	6,288
Profit retained for the financial period	5,179
Recognised gain and losses on defined benefit pension schemes	(6,822)
As at 30 April 2011	**4,645**

21. Guarantees and other financial commitments

a) Capital commitments

	2011	2010
	£000	£000
Capital commitments	**2,822**	2,120

b) Pension scheme

Both South West Trains and Island Line operated under the terms of a franchise agreement that expired on 4 February 2007 and from that date they operated under one, new franchise agreement, Stagecoach South Western Trains.

On commencement of the new franchise, the actuarial valuations performed on the South West Trains and Island Line sections of the scheme were updated to give a liability on commencement of the new Stagecoach South Western franchise, representing the obligations of the new franchisee to fund the scheme over the period of the 10 year franchise.

History of the South West Trains scheme

The Railways Pension Scheme (RPS) was established on 31 May 1994 by the Railways Pension Order 1994. It succeeded the BR Pension Scheme, which itself was established on 1 April 1987 by the merging of the New Section of the British Railways Superannuation Fund and the British Railways (Wages Grades) Pension Fund. On 1 October 1994 all of the assets and liabilities of the BR Pension Scheme were transferred to the RPS in accordance with the provisions of the Order. All active members were transferred to the Shared Cost Section of the RPS, and all pensioners and deferred pensioners were transferred to the closed 1994 Pensioners Section of the RPS. The RPS is a defined benefit occupational pension scheme in which costs are formally shared between the employer (60%) and the employee (40%). The RPS scheme is open to all employees of the company and is administered by Railtrust (Holdings) Limited through its wholly owned subsidiary, Railways Pension Trustee Company Limited. On 4 February 1996 the South West Trains section of the RPS was created and the appropriate share of the assets of the Shared Cost Section was allocated in accordance with the Pension Trust of the RPS.

Notes to the financial statements (continued)
For the 52 weeks ended 30 April 2011

21. Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

The last completed actuarial review of the South West Trains section of the RPS was carried out as at 31 December 2007 as part of the overall actuarial review of the RPS. The review was commissioned by the Trustees and was carried out by independent qualified actuaries, Watson Wyatt Partners, using the projected unit funding method. The main financial assumptions used were:

	% per Annum
Return on investments	
Non pensioner	7.59
Pensioner	5.78
Pay inflation	4.23
Price inflation	3.20
State basic pension increases	4.23

From June 2006, all parties have agreed a revised contribution schedule, with company contributions at 60% and employee contributions at 40% of the total contribution rate.

Further information with regard to the history of the South West Trains section of the RPS scheme and expected long-term returns on assets and liabilities, is disclosed in the South West Trains Limited statutory accounts for the period ended 28 April 2007.

History of the Island Line scheme

On 13 October 1996 the Island Line section of the RPS was created and the appropriate share of the assets of the Shared Cost Section was allocated in accordance with the Pension Trust of the RPS. The RPS is a defined benefit occupational pension scheme in which costs are formally shared between the employer (60%) and the employee (40%). The RPS scheme is open to all employees of the company and is administered by Railtrust (Holdings) Limited through its wholly owned subsidiary, Railways Pension Trustee Company Limited.

The actuarial review of the Island Line section of the RPS was carried out as at 31 December 2007 as part of the overall actuarial review of the RPS. The review was commissioned by the Trustees and was carried out by independent qualified actuaries, Watson Wyatt Partners, using the projected unit funding method. The main financial assumptions used were:

	% per Annum
Return on investments	
Non pensioner	7.59
Pensioner	5.78
Pay inflation	4.23
Price inflation	3.20
State basic pension increases	4.23

From June 2006, all parties have agreed a revised contribution schedule, with company contributions at 60% and employee contributions at 40% of the total contribution rate.

Further information with regard to the history of the Island Line section of the RPS scheme and expected long-term returns on assets and liabilities, is disclosed in the Island Line Limited statutory accounts for the period ended 28 April 2007.

21. Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

Commencement of the new franchise

On transfer of a franchise, the only obligation of the franchisee is to have paid the required contributions during the franchise period. Therefore the surplus or deficit in the section existing at the end of the franchise is taken on by subsequent franchisee(s). As the franchisee should have no obligation in relation to pension contributions after the expiry date of the franchise, it may be considered appropriate that only the proportion of the deficit expected to be 'made good ' by the franchisee over the franchise term is recognised on commencement of the franchise and at subsequent balance sheet dates. At the commencement of the South Western franchise a deficit was recognised in Stagecoach South Western Trains Limited in respect of the new franchise.

Stagecoach South Western Trains Limited has no rights or obligations in respect of the sections of the RPS pension scheme following expiry of the related franchises. Therefore the liability (or asset) recognised for relevant sections of the RPS only represents that part of the net deficit (or surplus) of each section that the employer is obliged to fund (or expected to recover) over the life of the franchise to which the section relates.

The calculations used for FRS 17 disclosures have been based on the most recent actuarial valuation carried out by Watson Wyatt Partners on the 31 December 2007, which has been verified by independent professional qualified actuaries to take account of the requirements of FRS 17.

The major assumptions used by the actuary were as follows:

	30 April 2011	1 May 2010
	%	%
Rate of increase in salaries	**4.3**	4.4
Rate of increase of pensions in payment	**3.3**	3.4
Discount rate	**5.6**	5.7
Rate of inflation	**3.3**	3.4

Mortality assumptions used in the 31 December 2007 valuation:

Current pensioner aged 65 - male	**19.8**
Current pensioner aged 65 – female	**23.7**
Future pensioners at age 65 – (aged 45 now) – male	**22.2**
Future pensioners at age 65 – (aged 45 now) – female	**25.9**

The assets in the scheme and the expected rates of return were:

	2011	2011	2010	2010
	%	£000	%	£000
Equities	**8.3**	**336,986**	8.3	302,050
Bonds	**5.7**	**58,728**	5.5	52,639
Cash	**4.7**	**2,330**	4.7	2,089
Property	**7.5**	**68,050**	7.5	60,995
Total		**466,094**		417,773

The expected long-term rate of return and the value of assets in the Island Line and South West Trains sections of the RPS scheme at balance sheet dates prior to 28 April 2007 were disclosed in the Island Line Limited and South West Trains Limited statutory accounts.

Notes to the financial statements (continued)
For the 52 weeks ended 30 April 2011

21. Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

Analysis of amounts charged to the profit and loss account

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Charge to operating profits					
- Current service cost	**20,664**	15,676	13,403	14,625	3,248
- Curtailment	**-**	(500)	(800)	(279)	-
Total operating charge	**20,664**	15,176	12,603	14,346	3,248
Finance (income)/cost					
- Expected return on assets	**(19,776)**	(15,344)	(20,759)	(20,327)	(4,461)
- Interest on pension scheme liabilities	**21,007**	16,823	16,215	14,033	3,082
- Unwinding of franchise adjustment	**(4,809)**	(2,395)	-	-	-
Net return	**(3,578)**	(916)	(4,544)	(6,294)	(1,379)

BRASS contributions

BRASS contributions are additional funding contributions made by employees, which are matched by the employer. We have recorded the current year employer contributions of £929,993 (2010: £980,000) as defined contribution pension expenses.

Analysis of amounts recognised in the company's statement of total recognised gains and losses (STRGL):

	2011 £000	2011	2010 £000	2010
Actual return less expected return on pension scheme assets				
- Amount	**20,395**		75,417	
- Percentage of scheme assets		**4.38%**		18.1%
Experience gains and losses arising on the scheme liabilities				
- Amount	**(16,167)**		31,190	
- Percentage of the present value of the scheme liabilities		**(3.47%)**		7.0%
Changes in assumptions underlying the present value of the scheme liabilities	**248**		(169,235)	
Franchise adjustment	**(12,862)**		47,262	
Total actuarial loss recognised in STRGL				
- Amount	**(8,386)**		(15,366)	
- Percentage of the present value of scheme liabilities		**(1.80%)**		(3.4%)

The history of experience gains and losses on the Island Line and South West Trains sections of the RPS scheme for periods prior to 28 April 2007 is disclosed in the Island Line Limited and South West Trains Limited statutory accounts.

21. Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

The movements in the surplus during the period are as follows:

	2011 £000	2010 £000
Deficit in the scheme at the beginning of the period	**(30,800)**	(19,646)
Movement in the year:		
- Current service cost	**(20,664)**	(15,676)
- Contributions	**19,313**	18,472
- Other finance income	**3,578**	916
- Actuarial loss	**(8,386)**	(15,366)
- Curtailments	**-**	500
Deficit in the scheme at the end of the period	**(36,959)**	(30,800)

The balance sheet amounts as at 30 April 2011 measured in accordance with the requirements of FRS 17 were as follows:

	2011 £000	2010 £000
Total market value of assets	**466,094**	417,773
Present value of scheme liabilities		
- Gross liabilities	**(654,878)**	(609,713)
- Adjustment for members' share of deficit (40%)	**75,514**	76,776
- Franchise adjustment	**76,311**	84,364
	(503,053)	(448,573)
Pension liability before tax	**(36,959)**	(30,800)
Related deferred tax asset	**9,609**	8,624
Net pension liability (note 17)	**(27,350)**	(22,176)

Reconciliation of fair value of scheme assets	2011 £000	2010 £000
At 1 May 2010	**417,773**	318,100
Expected return on plan assets	**19,776**	15,344
Actuarial gains	**20,395**	75,417
Employers contributions	**19,313**	18,472
Members contributions	**3,488**	4,636
Benefits paid	**(14,651)**	(14,196)
At 30 April 2011	**466,094**	417,773

Reconciliation of present value of scheme liabilities	2011 £000	2010 £000
At 1 May 2010	**(448,573)**	(337,746)
Current service costs	**(20,664)**	(15,676)
Interest costs	**(21,007)**	(16,823)
Unwinding of franchise adjustment	**4,809**	2,395
Curtailments	**-**	500
Members contributions	**(3,488)**	(4,636)
Actuarial (losses)/gains - experience gains and losses	**(16,167)**	31,190
Franchise adjustment	**(12,862)**	47,262
Actuarial gains/(losses) - changes in assumptions	**248**	(169,235)
Benefits paid	**14,651**	14,196
At 30 April 2011	**(503,053)**	(448,573)

21. Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

The Directors believe that the company has no rights or obligations in respect of the RPS scheme following expiry of the franchise. The pension asset is expected to be wholly recoverable over the life of the franchise, so no franchise adjustment to restrict the surplus recognised has been made.

c) Contingent liabilities

The company, together with certain other group undertakings, is a member of a group for Value Added Tax purposes, and technically stands liable in the event of default by any other group undertaking.

22. Related party disclosure

The fellow group undertaking National Transport Tokens Limited is a 99.9% owned subsidiary of Stagecoach Group plc. For the period ended 30 April 2011, National Transport Tokens Limited redeemed tokens presented by the Company with a value of £175,003 (2010: £191,000). As at 30 April 2011 the Company has a receivable of £21,000 (2010: £nil) owed by National Transport Tokens Limited.

23. Share based payments

The Company operates a Save as You Earn Scheme ("SAYE") and an Executive Participation Plan ("EPP"). Further details of each of these arrangements are given below. All share options referred to in this note relate to ordinary shares of Stagecoach Group plc, the ultimate parent of the Company.

Share based payment charges of £1.1m (2010: £1.7m) have been recognised in the income statement during the year in relation to the above schemes.

Save as You Earn Scheme
In August 2008, all eligible employees were invited to participate in a new SAYE scheme with a three-year duration starting in September 2008.

Grant date	October 2008
Share price at grant/award date (£)	3.2750
Exercise price (£)	2.5178
Number of employees holding options/units at 30 April 2011	1,350
Shares under option/notional units at 30 April 2011	2,456,854
Vesting period (years)	3
Expected volatility	30%
Option/award life (years)	3.5
Expected life (years)	3
Risk free rate	4.43%
Expected dividends expressed as an average annual dividend yield	1.37%
Expectations of meeting performance criteria	100%
Fair value per option/notional unit at grant date (£)	1.14
Option pricing model	Black-Scholes

23. Share based payments (continued)

One issue from the SAYE scheme was in operation during the year as follows:

Issue	Option grant date	Savings contract start date	Exercise price	Date from which exercisable	Expiry date
E	1 September 2008	1 October 2008	251.775p	1 October 2011	31 March 2012

The expiry date of any individual SAYE option can be extended to be up to six months following the date of payment of the final amount due under the related savings account but may be no later than six months after the exercise date shown above.

The changes in the number of participating employees and options over ordinary shares were as follows:

	Issue E	
	Number of employees	Ordinary shares under option
Outstanding at beginning of year	1,497	2,721,718
Forfeited or cancelled	(137)	(247,545)
Expired	(10)	(17,319)
End of year	1,350	2,456,854

Executive Participation Plan

Under the EPP, Directors and senior managers sacrifice part of their actual annual cash bonus and are awarded deferred shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP notional units during the year were as follows:

Award date	28-Jun-07	30-Jun-08	29-Jun-09	10-Dec-09	28-Jun-10	Total
Outstanding at start of year (notional units)	35,320	61,694	25,244	58,335	Nil	180,593
Awards granted in year (notional units)	Nil	Nil	Nil	Nil	122,546	122,546
Exercised in year (notional units)	(35,320)	(6,902)	Nil	Nil	(8,310)	(50,532)
Lapsed in year (notional units)	Nil	Nil	(25,244)	Nil	Nil	(25,244)
Dividends in year (notional units)	Nil	575	Nil	614	1,201	2,390
Outstanding at end of year (notional units)	Nil	55,367	Nil	58,949	115,437	229,753

Vesting date	28-Jun-10	26-Jun-11	29-Jun-12	10-Dec-12	28-Jun-13
Expected total value of award at time of grant (£)	221,546	194,457	29,603	88,918	237,813
Closing share price on date of grant (£)	1.81	2.68	1.27	1.61	1.90

24. Ultimate parent company

The immediate parent undertaking is Stagecoach Rail Holding Limited, a company registered in Scotland (number SC 190288).

The company's ultimate parent undertaking and controlling party is Stagecoach Group plc, a company registered in Scotland (number SC100764), which is the parent undertaking and the only group to consolidate these financial statements. Copies of the Stagecoach Group plc consolidated financial statements are available from:

The Company Secretary
Stagecoach Group plc
10 Dunkeld Road
Perth
PH1 5TW