Stagecoach South Western Trains Limited

Financial statements for the 52 weeks ended 28 April 2012

Registered number 5599788

Contents

Directors' report
For the 52 weeks ended 28 April 2012

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 28 April 2012

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 and the franchise is expected to run until February 2017

Throughout the past year, SSWT along with the rest of the retail sector has traded in a very challenging economic environment Despite the economic challenges, revenue has grown by 9% and we are encouraged that during the period covered by this report there has been strong year on year volume growth of 3 5% The remainder of the increase is attributable to fares increases This level of volume growth has exceeded economic indices and the performance of much of the retail sector

Costs have been tightly controlled with further efficiency schemes delivered in the year This has been the fourth year of our efficiency drive and significant costs savings have been delivered over the four years As a consequence SSWT has delivered a profit of £34 9m for the year

On 27th April 2012, SSWT entered into a 'deep' Alliance with Network Rail Wessex division The entities are still stand alone businesses however through the introduction of one joint management team and collaborative working there will be opportunity to improve operational performance and customer service and to drive through further efficiencies whilst maintaining high standards of safety

Operational Performance

Train Performance has been affected by a number of significant performance incidents during the year including a major cable theft incident in June 2011 and a number of weather related incidents We have also experienced a significant increase in the number of suicides on the network that have resulted in major disruption We are working closely with the Samaritans and Network Rail as far as possible to prevent such incidents occurring

Largely as a result of these incidents, our operational performance (as measured by the DfT's Public Performance Measure, 'PPM') reduced from 93 3% at the end of 2010-11 to 92 3% in the year ended 28 April 2012

Our PPM performance compares against a London and South East commuter average of 91 7% (2011 91 1%) and a national UK average for all franchised TOCs also of 91 7% (2011 90 8%)

We continue to strive 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 28 April 2012, 69 5% (2011 73 6%) of our trains arrived at the right time In conjunction with Network Rail we have recently introduced a performance recovery plan that will lead to a significant number of actions to address the problems that are causing performance to decline

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

The Autumn 2011 NPS (National Passenger Survey) results showed overall passenger satisfaction at 84% (2011 87%) which was 1% higher than the overall passenger London and South East score of 83% (2011 83%)

As one of the UK's largest and most complex passenger rail franchises, this is a significant achievement The factor that most heavily influences the NPS score is operational performance and we anticipate that by improving performance and through implementing Alliance schemes with Network Rail, we will be able to increase our passenger satisfaction levels

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 We have, through successful partnerships with third parties delivered schemes that deliver significant improvements for our disabled customers

We continue to be committed to further integration with other types of transport For example, we have recently installed a ticket on departure ticket machine at Southampton Airport arrivals hall - we believe the first of its type in the country

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 and other industry colleagues to improve the information facilities at our stations and on trains

Additional Capacity

We have recently reached agreement with the DfT (under the High Level Output Specification initiative) to increase capacity on parts of the SSWT network The additional capacity will be introduced in two phases which will see the introduction of 108 extra carriages in total on to the network between May 2013 and December 2014

Phase one that was agreed in December 2011, will see the introduction of an additional 60 carriages and around 8,000 additional seats will be available for travel into London Waterloo every morning as a number of eight car trains are lengthened to run with 10 carriages

As part of this programme part of the former Waterloo International Terminal will be brought back into service to address some of the operational capacity problems at Waterloo

The enhanced services will be delivered through the refurbishment of 60 former Gatwick Express Class 460 vehicles, combined with refurbished trains from Stagecoach South West Trains' existing fleet The additional carriages will begin arriving from May 2013, with all new services in place by July 2014

Work on the trains, leased through Porterbrook, will be carried out by Alstom, providing a boost to UK-based train engineering It is also expected to create new jobs at Stagecoach South West Trains

The project will also include investment in train depots at Wimbledon, Farnham and Clapham, as well as the creation of two new sidings at Guildford

Phase two will see the introduction of a further 48 carriages creating an additional 2,400 extra seats every day The extra carriages will result in the lengthening of certain five, six and eight car trains to run as eight, nine, ten and twelve car services The additional carriages will be delivered through the cascade of 48 Class 456 trains from Southern Railways These trains are compatible with the Class 455 trains within the existing South West Trains fleet and will be refurbished to the same high quality specification

Alliance with Network Rail

The Company entered into an Alliance with infrastructure operator Network Rail on 29 April 2012 with the aim of delivering better rail services in the south and south-west of England A single senior joint management team now has responsibility for both trains and track on the route operating out of London Waterloo, which is a first of its kind, for the UK rail industry

The Alliance is aiming to cut delays for passengers, provide better customer service, deliver more effective management of disruption, and improve the efficiency of the railway through more collaborative working and better decision-making The new Alliance is also expected to benefit other TOC's and rail freight operators who use the Wessex route

The Alliance, which officially went live on 29 April, is a first for the UK rail industry and has been approved by the Department for Transport and the Office of Rail Regulation The Alliance is planned to run until 4 February 2017, the expiry date of the Stagecoach South Western Trains Franchise Agreement, however both the DfT and ORR have initially given approvals for the first 2 years Further approvals will be sought in 2014

The creation of the Alliance follows the publication of the McNulty Report last year, which recommended a package of measures to reduce inefficiencies in the UK rail system It also delivers a key element of the Government's Rail Command Paper, issued in March 2012, which called for closer co-operation between operations and infrastructure

The Alliance also builds on the existing joint working between Stagecoach South West Trains and Network Rail through the Wessex Integrated Control Centre at London Waterloo, which co-ordinates the operational response to incidents on the route, as well as recent moves by Network Rail to devolve operational responsibility to regional units

A governance board, with equal representation from both organisations, will oversee the operation of the Alliance and take major business decisions Arrangements are in place to ensure the interests of other passenger rail companies and freight operators are protected Both companies retain their own identities and staff There are no changes to terms and conditions of employment or collective bargaining agreements with recognised trade unions

Results and dividends

Turnover (passenger revenue) for the 52 weeks ended 28 April 2012 was £815 4m (2011 £746 0m), which reflects year on year turnover growth of around 9%

Profit after tax for the financial period amounted to £34 9m and has been appropriated as follows

	2012
	£000
Profit for the financial period	34,856
Dividend £160,000 per ordinary share	(32,000)
Retained profit for the year ended 28 April 2012	2,856

Interim dividends of £32m have been declared (2011 £30m)

Directors' report (continued)
For the 52 weeks ended 28 April 2012

The results include Franchise Grant payment of £322 9m paid to the DfT (2011 £253 4m) The following table sets out the main components of franchise grant payment

Franchise Grant payments	**2012**	**2011**
	£000	**£000**
Franchise Premia	313,798	233,428
Network Rail rebate payable to DfT	-	7,886
Other	9,058	12,113
Total	**322,856**	**253,427**

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 Since the commencement of the Alliance an Alliance Executive Safety and Compliance Board has been created and membership has been expanded to include all Alliance Directors This Board reviews both SSWT and Network Rail Safety incidents

Each year we set ourselves challenging safety targets and objectives within our Safety & Environment Plan as we seek to continually improve our performance Progress against these objectives, and overall safety performance, is reviewed at the safety sub-committee meetings

As in previous years, the Safety & Environment Plan has been aligned with the Rail Safety & Standards Board (RSSB) Strategic Safety Plan for the industry as a whole and we have used the RSSB Safety Risk model to help identify our top safety risks

We made significant progress against our targets in 2012, particularly in relation to the control of 'catastrophic risks' such as SPADs (Signals Passed at Danger) and derailments

The company remains focused on the management of these catastrophic risks together with all aspects of passenger safety such as major injuries, slips, trips and falls and employee safety such as major injuries, physical assaults and lost time accidents

We have also assessed our safety management processes against the ORR's RM3 Railway Maturity Model in order to identify areas where we can improve our processes and controls

We continue to work with the rest of the rail industry whenever possible in order to identify and apply 'best practice' to all our safety management processes "

Environment

South West Trains takes its environmental responsibilities 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

Energy

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

Traction energy accounts for approximately 90% of our overall energy consumption, making it a vital area for improvement Regenerative braking has now been successfully installed on all of our 458, 444 and 450 fleets, which will result in a significant reduction in traction energy, as energy generated when trains brake can now be used by other trains

An eco-driving strategy has also been developed to encourage our train drivers to drive in an energy efficient way As part of this, eco-driving training is now included as part of the induction and our ongoing training programme for all drivers

Green Champions have also been selected in each of our depots to cascade environmental messages, down and achieve improvements which can be made throughout our network We held our first workshop in May 2012 which gave Green Champions the task of developing action plans To continue momentum, meetings will be held every 6 months and work with other functions will also begin, such as train planning and signallers

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 train care 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

Intelligent lighting controls have been installed across our stations, which include sensors that take into account the natural light levels and motion sensors to trigger when the lights are needed A number of these systems will also be rolled out during the next 12 months

Our staff at our stations are an important part of the solution, and we want to give them the control and responsibility to improve their environmental performance Training has been rolled out, and Green Champions allocated to help raise awareness, and highlight areas for improvement During the next 12 months these will be tasked with conducting energy walks and determining where controls can be improved Energy manuals have been developed for each major station which lists all of the lighting and heating controls These have been produced to enable any member of staff to understand how these are controlled so they can be turned off when not required

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 control our costs

Our mixed recycling scheme rolled out across all stations continues to work well, with an average of 92% of waste diverted from landfill between April 2011 and April 2012 This is a significant increase compared to the previous year (40%) During the next 12 months site assessments will be conducted to check the mix of the waste, and where collections/bin sizes can be altered to improve efficiency

We are also working to improve awareness and facilities for waste removal at our stations Metro bins have been installed at Waterloo station, which not only encourages passengers to dispose of their waste, but also reduces work for our onboard cleaners Updated backing boards and the installation of further bins is scheduled for the next 12 months to promote our recycling scheme

As a result of the success of our mixed recycling contract at stations, this was rolled out at the majority of our depots in January 2012

Environmental Awareness
Improving the awareness and understanding of both our staff and passengers is vital We held our 5th Green Week event this year, which included events for both our passengers and our staff During the week we held energy workshops for station staff to enable station teams to monitor their energy use An Eco Driving workshop was also held for our Green Champions Following the success of last years passenger event, we held engagement events at 5 of our major stations Here we engaged with passengers and gave away 4,000 reusable water bottles with the assistance of our waste contractor

Modal Shift
We have made significant improvements during the last 12 months in improving the facilities and services for our passenger, which has provided the opportunity to reduce car dependency, which is highlighted by the awards won at the ATOC cycle rail awards in November 2011 (SSWT won the operator of the year award, cycle champion, and collaboration with the best local government scheme)

During the past 12 months a significant number of new spaces have been installed, along with 3 cycle hire schemes, and 6 secure cycle compounds It is estimated that approximately 50% of our passengers now benefit from these improvements

Collaboration with local councils and organisations has led to other exciting transport projects such as the introduction of new cycle paths, the Bus Rapid Transit at Gosport which links Gosport and the Ferry to Fareham bus station via the Fareham rail station, and linking in with other transport networks such as the Park and Ride at Winchester to encourage train patronage

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	Resigned 28 January 2012
Ross J Paterson	
Andrew C West	
Andrew C Pitt	Resigned 2 January 2012
Timothy C Shoveller	Appointed 2 January 2012
Jacob Kelly	Appointed 5 July 2012
Christian Roth	Appointed 5 July 2012

Employees

We have continued to deliver strong results on our people agenda over the past 12 months Employee engagement reached another all time high for the industry and the current franchise and attendance levels continue to exceed 97% MAA

Last Autumn (2011) we successfully retained our Investors in People (IiP) accreditation and a new intranet system launched across the company This includes a pioneering document management system for our engineering teams and enables the publication of rosters online for our on train staff

Our recruitment and vocational training teams have worked exceptionally hard to deliver qualified people, on time to support our manpower plans In January 2012 we launched our traincrew enhanced NVQ programme and to date we have 120 trainee Drivers and Guards who have registered to follow the government apprenticeship programme

We continue to operate three 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 for all our employees

Directors' report (continued)
For the 52 weeks ended 28 Aprıl 2012

Thıs year we have ıntroduced a cross functıonal recognıtıon board as part of our employee engagement strategy The focus of whıch ıs to ensure all of our recognıtıon actıvıtıes are fıt for purpose and accessıble to all We are commıtted to ensurıng that all ındıvıduals are treated faırly and valued equally, ırrespectıve of dısabılıty, race, gender, health, socıal class, sexual orıentatıon, marıtal status, natıonalıty, relıgıon or belıef, employment status or age

Key Performance Indicators

In addıtıon to monıtorıng fınancıal performance, the company uses a wıde range of key performance ındıcators (KPIs) to assess the effectıveness of performance ın key actıvıtıes The most ımportant of these KPIs focus on the followıng key areas

- Safety
- Servıce Delıvery
- Customer Servıce

Safety

In addıtıon to provıdıng a relıable traın servıce, we seek to ensure the safety of our customers, staff and contractors Safety ıs monıtored ın varıous ways, ıncludıng through a Board Sub-Commıttee (from 29 Aprıl 2012 through an Allıance Executıve Safety and Complıance Board) and a range of KPIs The most ımportant KPIs are reported below

	Targets for the perıod ended 28/4/2012	Perıod ended 28/4/2012 (Movıng Annual Average)	Perıod ended 30/4/2011 (Movıng Annual Average)	Perıod ended 1/5/2010 (Movıng Annual Average)
Passenger movement accıdents per 1 mıllıon passenger mıles	0 07	0 07	0 06	0 10
Passenger movement accıdents per 1 mıllıon passenger journeys (slıps, trıps, falls alıghtıng/joınıng traıns)	0 65	0 69	0 65	0 76
Passenger non-movement accıdents per 1 mıllıon passenger journeys (slıps, trıps and falls on staırs and platforms)	1 00	1 16	1 00	1 00
Workforce lost tıme accıdents per 1,000 employees (excludıng shock)	1 20	1 27	1 30	1 64
Employee physıcal assaults per 1,000 employees	2 53	2 03	2 20	2 80

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 2013)	Period ended 28/4/2012 (Moving Annual Average)	Period ended 30/4/2011 (Moving Annual Average)	Period ended 1/5/2010 (Moving Annual Average)
Public Performance Measure	92 7%	92 3%	93 3%	93 0%

Train performance has been affected by a number of significant performance incidents during the year including a cable theft incident in June 2011 We have also experienced a significant increase in the number of suicides on the network Regrettably both suicides and cable theft occurrences result in a lengthy shutdown of the network in the vicinity of the incident These types of incidents inevitably have an adverse impact upon performance and are a cause of the deterioration in the PPM performance

Customer Service

We aim to provide high levels of customer service across all activities of the company Our measures of service Delivery include

- The twice-annual (Autumn and Spring) 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

We have seen our customer contacts grow significantly during the year and this is mainly due to the increase in Train Performance related complaints We have suffered a number of significant performance incidents during the year including a cable theft incident in June 2011, which resulted in the largest number of complaints we have ever received for a single incident We have also experienced a significant increase in the number of suicides on the network that have resulted in major disruption

Train Performance is recognised as being the most significant driver of passenger satisfaction and the dip in our performance over the last year has also no doubt influenced our NPS overall satisfaction result falling from 87% to 84%

NPS (Autumn Results)	Target	Period ended 28/4/2012	Period ended 30/4/2011	Period ended 1/5/2010
National Passenger Survey (Autumn survey's)	To reach the NPS "Overall Satisfaction" Survey score of 88%	84%	87%	86%
Customer Complaints	-	2,368 (MAA)	1,555 (MAA)	1,762 (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 2011-12 was higher than originally projected at the start of the year, we are concerned at the fragility of the economy and the potential impact of the crisis in the Eurozone area The income shortfall compared to the original bid is partly mitigated through the revenue support mechanism contained in the Franchise Agreement 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

The Olympics will present a significant challenge in the coming year financial year Passenger loadings are anticipated to be extremely heavy throughout the duration of the Games and in particular on the Bournemouth and Weymouth corridor where only limited additional capacity can be provided due to power supply constraints We have been planning the management of this event for the past two years and we have developed robust plans to address the extra capacity

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 25 days (2011 24 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

5 July 2012

On behalf of the Board

A C West

Company Secretary

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 28 April 2012, 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 11, 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 28 April 2012 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 TO THE MEMBERS OF STAGECOACH SOUTH WESTERN TRAINS LIMITED (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

5 July 2012

Profit and loss account

For the 52 weeks ended 28 April 2012

	Note	28 April 2012 £000 52 weeks	30 April 2011 £000 52 weeks
Turnover	2	**815,372**	746,008
Other operating income		**129,758**	108,853
Other operating costs		**(322,856)**	(245,540)
Operating costs		**(578,651)**	(561,782)
Operating profit	3	**43,623**	47,539
Finance income	4 (a)	**5,984**	4,987
Finance charges	4 (b)	**(999)**	(1,169)
Profit on ordinary activities before taxation		**48,608**	51,357
Tax on profit on ordinary activities	7	**(13,752)**	(16,178)
Profit for the financial period		**34,856**	35,179

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 28 April 2012

	Note	28 April 2012	30 April 2011
		£000	£000
		52 weeks	52 weeks
Fixed assets			
Investments	9	-	-
Intangible assets	10	5,156	6,236
Tangible fixed assets	11	41,763	32,085
		46,919	38,321
Current assets			
Stocks	12	1,989	1,875
Debtors amounts falling due after more than one year	13	18	26
Debtors amounts falling due within one year	13	158,583	145,130
Deferred tax asset	14	3,114	4,517
Cash at bank and in hand		114,513	116,857
		278,217	268,405
Creditors amounts falling due within one year	15	(276,521)	(259,167)
Net current assets		1,696	9,238
Total assets less current liabilities		48,615	47,559
Provision for liabilities	16	(10,976)	(11,025)
Net assets excluding pension liability		37,639	36,534
Pension liability	17	(27,691)	(27,350)
Net assets including pension		9,948	9,184
Capital and reserves			
Called up share capital	18	-	-
Share premium	18	200	200
Contribution reserve	19	4,877	4,339
Profit and loss account	20	4,871	4,645
Total Shareholders' funds		9,948	9,184

The financial statements on pages 15 to 38 were approved by the board of directors on 5 July 2012

Signed on behalf of the Board

A C West
Director
5 July 2012

Statement of total recognised gains and losses

For the 52 weeks ended 28 April 2012

	Note	28 April 2012 £000 52 weeks	30 April 2011 £000 52 weeks
Profit for the financial period		**34,856**	35,179
Recognition of net actuarial loss on defined benefit pension schemes	21 (b)	**(2,488)**	(8,386)
Recognition of tax on net actuarial gains and losses on defined benefit pension schemes (including impact of change in tax rate to 24% from 1 April 2012)	14	**(142)**	1,564
Total recognised gains relating to the period		**32,226**	28,357

Reconciliation of movements in shareholders' funds

For the 52 weeks ended 28 April 2012

	Note	28 April 2012 £000 52 weeks	30 April 2011 £000 52 weeks
Profit for the financial period		**34,856**	35,179
Dividends	5	**(32,000)**	(30,000)
Retained profit for the financial period		**2,856**	5,179
Recognised loss on defined benefit pension schemes relating to the period	21 (b)	**(2,630)**	(6,822)
Share based payments charge	19	**538**	1,129
Net increase / (decrease) in shareholders' funds		**764**	(514)
Opening shareholders' funds		**9,184**	9,698
Closing shareholders' funds		**9,948**	9,184

Notes to the financial statements
For the 52 weeks ended 28 April 2012

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 have been prepared under the historical cost convention, on the going concern basis, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom

The Company's financial statements fall within the scope of The Finance and Leasing Association Statement of Recommended Practice (FLA SORP) and have been prepared in accordance with the provisions thereof

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)

Notes to the financial statements (continued)
For the 52 weeks ended 28 April 2012

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

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or right to pay less taxation in future An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain Deferred tax assets and liabilities recognised have not been discounted

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date

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

1. Accounting policies (continued)

h) Other operating income/costs (continued)

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

Property rental income is recognised on an accrual basis Income from leases is recognised under the straight - line method over the term of the lease

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

1. Accounting policies (continued)

k) Retirement benefit obligations (continued)

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

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

1. Accounting policies (continued)

o) Share-based payments (contmued)

u) 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 28 April 2012 (30 April 2011 £nil)

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 financial statements 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

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)

		28 April 2012	30 April 2011
		£000	£000
		52 weeks	52 weeks
Staff costs (note 6e)		182,798	174,930
Depreciation (note 11)		2,885	1,613
Auditors' remuneration – for audit of the Company's financial statements		87	84
Network Rail charges	- Track access	68,294	64,279
	- Variable track access	12,486	12,117
	- Station leases/long-term station charges/access	26,460	26,282
	- Depot leases	8,720	8,660
	- Electric traction charge	31,026	29,292
	- Other performance recoveries	(11,258)	(2,506)
Operating lease rentals	- Passenger rolling stock	105,309	103,422
Revenue grant		322,856	253,427
Revenue support/franchise rebate		(87,133)	(68,321)
Rental income		(6,247)	(5,603)
Repairs and maintenance		13,287	13,774
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 (2011 £9,000) were payable to PricewaterhouseCoopers LLP during the period relating to Office of Rail Regulation and covenant work for the company and revenue support assessment

4. Finance Income and Charges

a) Finance Income

	28 April 2012	30 April 2011
	£000	£000
	52 weeks	52 weeks
Bank deposits and short term loans	1,157	1,160
Group interest receivable	299	249
Net pension finance income (note 21b)		
- Expected return on assets	22,097	19,776
- Interest on pension scheme liabilities	(21,842)	(21,007)
- Unwinding of franchise adjustment	4,273	4,809
	5,984	4,987

Notes to the financial statements (continued)
For the 52 weeks ended 28 April 2012

b) Finance Charges

	28 April 2012	30 April 2011
	£000	£000
	52 weeks	52 weeks
Interest paid	(912)	(1,079)
Bank charges	(87)	(90)
	(999)	(1,169)

5. Dividends

	28 April 2012	30 April 2011
	£000	£000
	52 weeks	52 weeks
Interim dividend £160,000 per ordinary share (2011 £150,000)	32,000	30,000

6. Information regarding directors and employees

a) Directors emoluments

Emoluments of directors were

	28 April 2012	30 April 2011
	£000	£000
	52 weeks	52 weeks
Aggregate emoluments	602	496

During the year three directors exercised share options (2011 nil)

b) Pensions

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

	28 April 2012	30 April 2011
	Number	Number
Defined benefit schemes	4	3

c) Highest paid director

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

	28 April 2012	30 April 2011
	£000	£000
	52 weeks	52 weeks
Total emoluments	213	213

The highest paid director in the period ended 28 April 2012 had £52,000 accrued pension entitlement under the company's defined benefit scheme (2011 £53,000) and £282,000 accrued lump sum entitlement at 28 April 2012 (2011 £46,000)

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

By activity	28 April 2012 Number	30 April 2011 Number
Operations/Engineering	2,721	2,655
Commercial/Retail	1,560	1,553
Management/Administration	143	145
	4,424	4,353

6 Information regarding directors and employees (continued)

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

	28 April 2012 £000 52 weeks	30 April 2011 £000 52 weeks
Wages and salaries	147,712	141,623
Social security costs	11,860	10,651
Pension costs	22,361	21,527
Share based payments	865	1,129
	182,798	174,930

7. Tax on profit on ordinary activities

a) Charge for the period	28 April 2012 £000 52 weeks	30 April 2011 £000 52 weeks
Current tax		
UK corporation tax on profits of the period	11,625	13,548
Adjustments in respect of prior year	(2)	281
Total current tax	11,623	13,829
Deferred tax		
Origination and reversal of timing differences	1,569	1,546
Adjustments in respect of prior periods	560	803
Total deferred tax	2,129	2,349
Tax on profit on ordinary activities	13,752	16,178

b) Factors affecting the tax charge for the period	28 April 2012 £000	30 April 2011 £000
The tax assessed for the period is lower (2011 lower) than the standard rate of corporation tax in the UK 25 84% (2011 27 84%) The differences are explained below	52 weeks	52 weeks
Profit on ordinary activities before taxation	48,608	51,357
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25 84% (2011 27 84%)	12,558	14,298
Effect of:		
Non tax deductible expenditure and other permanent differences	292	142
Treatment of inter-company transactions	41	(13)
Capital allowances for the period in excess of depreciation	(631)	(547)
Pension cost relief in excess of pension cost charge	(779)	(620)
Share based payments	144	288
Adjustments in respect of prior periods	(2)	281
Current tax charge for the period (note 7a)	11,623	13,829

7 Tax charge on profit on ordinary activities (continued)

c) Factors that may affect future tax charges

In the 2012 budget on 21 March 2012, the UK Government announced its intention to reduce the UK Corporate Income Tax rate to 22% by 1% per annum over the next two years At 28 April 2012 no change in the rate of tax was substantively enacted in law, but a 1% decrease in the rate to 23% is expected to be enacted in the year ending 30 April 2013 Had this change of rate to 23% been substantively enacted as of the balance sheet date, the estimated impact on the balance sheet would be a reduction in the deferred tax asset of £0 494m from £11 856m to £11 362m

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

	2012	2011
	£000	£000
Under one year	-	-
Between one year and five years	110,691	102,843
Over five years	-	-

Annual commitments under other operating leases expiring as follows are

	2012 £000		2011 £000	
	Land & Buildings	Other	Land & Buildings	Other
Under one year	64	1,114	147	-
Between one year and five years	2,822	90,669	436	94,467
Over five years	613	-	570	-
	3,499	91,783	1,153	94,467

9. Fixed assets/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 Fixed assets/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 fixed assets

	Franchise transition costs	Rail franchise	Total Intangible Assets
	£000	£000	£000
Cost			
At 30 April 2011 and 28 April 2012	274	10,532	10,806
Accumulated amortisation			
As at 30 April 2011	115	4,455	4,570
Amortisation for the period	27	1,053	1,080
As at 28 April 2012	142	5,508	5,650
Net Book Value at 30 April 2011	159	6,077	6,236
Net Book Value at 28 April 2012	132	5,024	5,156

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 28 April 2012

11. Tangible fixed assets

	Buildings - Short Term Leasehold	Plant, fixtures & fittings	Assets under construction	Total Fixed Assets
	£000	£000	£000	£000
Cost				
At 30 April 2011	5,600	6,265	41,435	53,300
Additions	55	2,796	24,256	27,107
Disposals	-	-	(14,544)	(14,544)
Transfers	1,558	5,073	(6,631)	-
At 28 April 2012	7,213	14,134	44,516	65,863
Accumulated Depreciation and Impairment				
At 30 April 2011	2,511	2,690	16,014	21,215
Charge for the period	980	1,905	-	2,885
Disposals	-	-	-	-
At 28 April 2012	3,491	4,595	16,014	24,100
Net Book Value at 30 April 2011	3,089	3,575	25,421	32,085
Net Book Value at 28 April 2012	3,722	9,539	28,502	41,763

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 £14 1m at 28 April 2012 (2011 £ 19 4m) These assets are classified as "Assets under construction" at both balance sheet dates and have not therefore been depreciated

12. Stocks

	2012	2011
	£000	£000
Raw materials and consumables	1,989	1,875

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

13. Debtors

	2012	2011
	£000	£000
Amounts falling due within one year		
Trade debtors	72,735	67,000
Amounts owed by group undertakings	49,862	46,562
VAT debtors	6,237	6,237
Other debtors	11,774	12,651
Prepayments and accrued income	17,975	12,680
	158,583	145,130
Amounts falling due after more than one year		
Employee loans	18	26

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 owed by group undertakings primarily relate to a loan to Stagecoach Group plc of £49 0m (2011 £46 0m) which is payable on demand and attracts interest based on one month London Inter Bank Bid Rate (LIBID) and amounts owed by Stagecoach Group plc for corporation tax £0 2m (2011 £0 2m) The corporation tax receivable and all other amounts owed by group undertakings are payable on demand and do not attract interest

14. Deferred tax asset

	2012 £000	2011 £000
Accelerated capital allowances	1,487	2,356
Other timing differences	1,627	2,161
Deferred tax asset excluding that related to pension liability	3,114	4,517
Deferred tax asset related to pension liability (note 21b)	8,742	9,609
Deferred tax asset	11,856	14,126
Asset as beginning of the period	14,126	14,911
Deferred tax charge in profit and loss account (note 7a)	(2,128)	(2,349)
Deferred tax (charge)/credited to the statement of total recognised gains and losses	(142)	1,564
Total asset at end of the period	11,856	14,126

15. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	80,682	79,227
Amounts owed to group undertakings	4,254	4,242
Deferred season ticket income	52,926	46,980
Corporation tax creditor	6,705	8,049
Other tax and social security	4,574	4,339
Accruals and deferred income	127,380	116,330
	276,521	259,167

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

16. Provisions for liabilities

	Restructuring provision £000	Claims provision £000	Total 2012 £000
At 30 April 2011	1,489	9,536	11,025
Charged to the profit and loss account	262	1,749	2,011
Utilised in period	(976)	(1,084)	(2,060)
At 28 April 2012	775	10,201	10,976

16 Provisions for liabilities (continued)

A provision of £0 8m (2011 £1 5m) 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 £10 2m (2011 £9 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 5 years

17. Pension liability

	2012 £000	2011 £000
Gross pension liability	(36,433)	(36,959)
Deferred tax asset (note 14)	8,742	9,609
Pension liability, net of deferred tax	(27,691)	(27,350)

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

	2012 £	2011 £
Allotted, called-up and paid		
200 (2011 200) ordinary shares of £1 each	200	200

	Number of Shares	Ordinary Shares	Share Premium	**Total**
		£	£	£
As at 30 April 2011 and 28 April 2012	200	200	199,800	200,000

19. Contribution reserve

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

	2012 £000
As at 30 April 2011	4,339
Share based payments charge	538
As at 28 April 2012	**4,877**

20. Profit and loss account

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

	2012
	£000
As at 30 April 2011	4,645
Profit for the financial period	34,856
Dividend	(32,000)
Recognised gain and losses on defined benefit pension schemes	(2,630)
As at 28 April 2012	**4,871**

21. Guarantees and other financial commitments

a) Capital commitments

	2012	2011
	£000	£000
Capital commitments on station improvements, major projects and other capital items	2,102	2,822

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

21 Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

The last completed triennial actuarial review of the South West Trains section of the RPS, was carried out as at 31 December 2010 as part of the overall triennial 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 deficit at the triennial valuation on the South West Trains section of the RPS was £50 9m 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 50

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 financial statements 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 last completed triennial actuarial review of the Island Line section of the RPS was carried out as at 31 December 2010 as part of the overall triennial 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 deficit at the triennial valuation on the Island Line section of the RPS was £0 3m 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 50

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 financial statements 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 2010, 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

	28 April 2012	30 April 2011
	%	%
Rate of increase in salaries	**4.1**	4 3
Rate of increase of pensions in payment	**2.1**	3 3
Discount rate	**5.2**	5 6
Retail price index (RPI)	**3.1**	3 3
Consumer price index (CPI)	**2.1**	N/A

Mortality assumptions used in valuations

	31 December 2010	31 December 2007
Current pensioner aged 65 - male	**20.6**	19 8
Current pensioner aged 65 – female	**24.4**	23 7
Future pensioners at age 65 – (aged 45 now) – male	**22.9**	22 2
Future pensioners at age 65 – (aged 45 now) – female	**26.6**	25 9

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

	2012	**2012**	2011	2011
	%	**£000**	%	£000
Equities	**8.3%**	**335,579**	8 3	336,986
Bonds	**4.3%**	**58,482**	5 7	58,728
Cash	**3.4%**	**2,321**	4 7	2,330
Property	**7.5%**	**67,765**	7 5	68,050
Total		**464,147**		466,094

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 financial statements

21 Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

Analysis of amounts charged to the profit and loss account

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Charge to operating profits						
- Current service cost	**21,570**	20,664	15,676	13,403	14,625	3,248
- Curtailment	**-**	-	(500)	(800)	(279)	-
Total operating charge	**21,570**	20,664	15,176	12,603	14,346	3,248
Finance (income)/cost						
- Expected return on assets	**(22,097)**	(19,776)	(15,344)	(20,759)	(20,327)	(4,461)
- Interest on pension scheme liabilities	**21,842**	21,007	16,823	16,215	14,033	3,082
- Unwinding of franchise adjustment	(4,273)	(4,809)	(2,395)	-	-	-
Net return	**(4,528)**	(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 £881,000 (2011 £930,000) as defined contribution pension expenses

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

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Actual return less expected return on pension scheme assets					
- Amount	**(24,116)**	20,395	75,417	(140,143)	(34,005)
- Percentage of scheme assets	**(5.20%)**	4 38%	18 1%	(44 1%)	(8 0%)
Experience gains and losses arising on the scheme liabilities					
- Amount	**(12,250)**	(16,167)	31,190	32,394	(14,268)
- Percentage of the present value of the scheme liabilities	**2.45%**	(3 47%)	7 0%	9 6%	(3 3%)
Changes in assumptions underlying the present value of the scheme liabilities	**51,370**	248	(169,235)	32,229	49,301
Franchise adjustment	**(17,492)**	(12,862)	47,262	34,707	-
Total actuarial loss recognised in STRGL					
- Amount	**(2,488)**	(8,386)	(15,366)	(40,813)	1,028
- Percentage of the present value of scheme liabilities	**0.50%**	(1 80%)	(3 4%)	(12 1%)	0 2%

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 financial statements

21 Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

The movements in the surplus during the period are as follows

	2012 £000	2011 £000
Deficit in the scheme at the beginning of the period	(36,959)	(30,800)
Movement in the year		
- Current service cost	(21,570)	(20,664)
- Contributions	20,056	19,313
- Other finance income	4,528	3,578
- Actuarial loss	(2,488)	(8,386)
Deficit in the scheme at the end of the period	(36,433)	(36,959)

The balance sheet amounts as at 28 April 2012 measured in accordance with the requirements of FRS 17 were as follows

	2012 £000	2011 £000
Total market value of assets	464,147	466,094
Present value of scheme liabilities		
- Gross liabilities	(630,022)	(654,878)
- Adjustment for members' share of deficit (40%)	66,350	75,514
- Franchise adjustment	63,092	76,311
	(500,580)	(503,053)
Pension liability before tax	(36,433)	(36,959)
Related deferred tax asset	8,742	9,609
Net pension liability (note 17)	(27,691)	(27,350)

Reconciliation of fair value of scheme assets	2012 £000	2011 £000
At 30 April 2011	466,094	417,773
Expected return on plan assets	22,097	19,776
Actuarial (losses)/gains	(24,116)	20,395
Employers contributions	20,056	19,313
Members contributions	3,572	3,488
Benefits paid	(23,556)	(14,651)
At 28 April 2012	464,147	466,094

Reconciliation of present value of scheme liabilities	2012 £000	2011 £000
At 30 April 2011	(503,053)	(448,573)
Current service costs	(21,570)	(20,664)
Interest costs	(21,842)	(21,007)
Unwinding of franchise adjustment	4,273	4,809
Members contributions	(3,572)	(3,488)
Actuarial (losses) - experience gains and losses	(12,250)	(16,167)
Franchise adjustment	(17,492)	(12,862)
Actuarial gains - changes in assumptions	51,370	248
Benefits paid	23,556	14,651
At 28 April 2012	(500,580)	(503,053)

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

The expected contributions for the coming year are £23m

Following changes introduced by the UK Government in 2010, and in accordance with the rules of the Scheme, the Trustees of the Scheme have confirmed that CPI rather than RPI shall be used as the basis of revaluation for pensions All other things being equal, the resulting change of assumption would be expected to lower the pension liabilities and charges associated with the Scheme However, the amended contribution schedule agreed for the 2010 triennial valuation results in an increase in contributions rates payable from 1 July 2012 (despite the inclusion of CPI in the valuation assumptions) As such no reduction was recognised in the profit and loss charge for the 2012 accounts given contributions were due to increase

The estimated impact of using CPI for valuing the scheme liabilities in the balance sheet was recorded as at the year-end, and the impact of applying CPI will be reflected in the service charge in the profit and loss account in the year ending 30 April 2013 along with the impact from the increases in the contribution rates

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 28 April 2012, National Transport Tokens Limited redeemed tokens presented by the Company with a value of £58,000 (2011 £175,000) As at 28 April 2012 the Company has a receivable of £16,000 (2011 £21,000) 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 £0 9m (2011 £1 1m) have been recognised in the profit and loss account during the year in relation to the above schemes

23 Share based payments (contnued)

Save as You Earn Scheme

In August 2008, all elıgıble employees were ınvıted to partıcıpate ın a new SAYE scheme wıth a three-year duratıon startıng ın September 2008

Grant date	October 2008
Share prıce at grant/award date (£)	3 2750
Exercıse prıce (£)	2 5178
Number of employees holdıng optıons/unıts at 28 Aprıl 2012	-
Shares under optıon/notıonal unıts at 28 Aprıl 2012	-
Vestıng perıod (years)	3
Expected volatılıty	30%
Optıon/award lıfe (years)	3 5
Expected lıfe (years)	3
Rısk free rate	4 43%
Expected dıvıdends expressed as an average annual dıvıdend yıeld	1 37%
Expectatıons of meetıng performance crıterıa	100%
Faır value per optıon/notıonal unıt at grant date (£)	1 14
Optıon prıcıng model	Black-Scholes

One ıssue from the SAYE scheme was ın operatıon durıng the year as follows

Issue	Optıon grant date	Savıngs contract start date	Exercıse prıce	Date from whıch exercısable	Expıry date
E	1 September 2008	1 October 2008	251 775p	1 October 2011	31 March 2012

The expıry date of any ındıvıdual SAYE optıon can be extended to be sıx months followıng the date of payment of the fınal amount due under the related savıngs account and ın certaın cırcumstances can be extended to no later than twelve months after the expıry date shown above

The changes ın the number of partıcıpatıng employees and optıons over ordınary shares were as follows

	Issue E
	Ordınary shares under optıon
Begınnıng of year	2,456,854
Cancelled ın year	(2,070,564)
Forfeıted ın year	(33,221)
Exercısed ın year	(338,138)
Begınnıng of year	14,931

23 Share based payments (continued)

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	30-Jun-08	10-Dec-09	28-Jun-10	30-Jun-11	Total
Outstanding at start of year (notional units)	55,367	58,949	115,437	Nil	229,753
Awards granted in year (notional units)	Nil	Nil	Nil	98,571	98,571
Exercised in year (notional units)	(55,367)	Nil	Nil	Nil	(55,367)
Lapsed in year (notional units)	Nil	Nil	Nil	Nil	Nil
Dividends in year (notional units)	Nil	1,714	3,350	2,860	7,924
Outstanding at end of year (notional units)	Nil	60,663	118,787	101,431	280,881
Vesting date	26-Jun-11	10-Dec-12	28-Jun-13	30-Jun-14	
Expected total value of award at time of grant (£)	194,457	88,918	237,813	251,405	
Closing share price on date of grant (£)	2 68	1 61	1 90	2 55	

Buy as You Earn Scheme

BAYE enables eligible employees to purchase shares from their gross income The Company provides two matching shares for every shares bought from the first £10 of monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month

If the shares are held in trust for five years or more, no income tax and national insurance will be payable The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award

At 28 April 2012 there were 1,883 (2011 Nil) participants in the BAYE scheme who have cumulatively purchased 192,515 (2011 Nil) shares with the Company contributing 56,346 (2011 Nil) matching shares on a cumulative basis Dividends had been reinvested in a further 551 (2011 Nil) for these participants

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

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