Stagecoach South Western Trains Limited
Financial statements for the 52 weeks ended 26 April 2014

Registered number: 5599788

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Strategic report
For the 52 weeks ended 26 April 2014

The directors present their strategic report on the company for the year ended 26 April 2014.

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 (SSWT) has been operating the 'South Western' rail franchise since 4 February 2007 and the franchise is expected to run until February 2017. The Department for Transport (DfT) announced in the previous financial year that, due to their re-franchising timescales, they wish to extend the Franchise period until March 2019. Discussions with the DfT have been on-going throughout 2013/2014 and the DfT have recently issued a Request for Proposal inviting SSWT to submit their proposals for the franchise extension.

This development is welcomed by the company and presents an exciting opportunity for SSWT to submit proposals that will lead to significant passenger benefit and secure Stagecoach's interest in the franchise until at least March 2019.

During this financial year, SSWT have extended the duration of the 'deep' Alliance with the Network Rail Wessex Route. The Alliance has been operational since April 2012; however, the initial trial was only given regulatory approval until March 2014. The new arrangement provides for the Alliance to continue until the end of a potential Franchise extension period (31 March 2019). The entities are still stand alone businesses; however, the Alliance is managed by one joint management team working under the direction of an Alliance Governance Board that includes Directors from both Stagecoach Group and Network Rail. Throughout the past year, the key focus has been to address the reliability of the Network Rail infrastructure, thereby improving operational performance.

During the year, we have published a comprehensive Alliance 5 year business plan that has been shared with all of our managers.

This business plan will drive the agenda for the remainder of the Franchise/Alliance period and sets out our strategies for delivering improvements across all activities and across all functions within the business.

Throughout the past year, SSWT has continued to trade in a very challenging economic environment. Despite the economic challenges, revenue has grown by 5% with volumes increasing by 2%. During the financial year, SSWT initiated a number of marketing campaigns that were successful in stimulating revenue growth. These marketing initiatives generated an additional £3m of revenue and further schemes are planned for 2014/15, when our target is to deliver a further £6m revenue growth.

The business has been heavily affected by the adverse weather that was experienced throughout the winter months.

On both the mainland and the Isle of Wight, there were a number of very significant landslips that blocked our routes for many weeks and during the severe storms over 140 trees fell on to the lines, blocking routes and causing damage to trains that hit them. The storms are estimated to have had a £3m adverse financial impact upon SSWT's results in the year under review. It is a credit to the dedication, commitment and hard work by our employees in both sides of the Alliance that we were able to continue to run a service despite huge operational logistic problems and we were able to quickly restore train services back to normal. The recovery highlighted some real benefits of the Alliance.

The severe weather has impacted upon our operational performance and at the end of the financial year the Public Performance Measure (PPM) had fallen to 89.6%. Addressing the long-standing fragility of the Network Rail infrastructure is key and plans are in place to enhance the infrastructure and to implement schemes to help address weather-related risks.

Operational performance is a key driver of customers' satisfaction levels and as a consequence, the most recent NPS survey (Spring 2014) has shown an overall decline in customer satisfaction. This survey was undertaken between the start of February and the middle of April; at a time when we were recovering from the acute problems that were caused by the extreme winter weather. Despite this, 79% of those customers surveyed stated they were satisfied with the overall service they were provided with.

There were also some really positive trends emerging from this survey and these include:

- The value for money for the price of the ticket
- How requests to station staff were handled
- The availability of staff at stations

We have placed a lot of focus in these areas and it is encouraging that already the improvements are being seen in the survey results in these specific areas.

Expanding capacity and improving the resilience of the train and signalling infrastructure is a key priority, particularly on busy commuter services into London. Around £380m is being spent to renew and enhance the infrastructure to provide more reliable journeys on our routes which is Europe's busiest commuter network. The first of 108 extra carriages have been introduced on the network as part of a £85m programme to provide an additional 23,000 peak time seats every weekday. Platform 20 at the former Waterloo International Terminal (WIT) has been opened ahead of schedule to help accommodate trains during disruption. The Alliance is also working with the DfT on significant proposals to re-open the remaining four WIT platforms, to extend platforms 1 to 4 at London Waterloo to create extra capacity at the UK's busiest station and to provide additional trains to provide extra capacity. Negotiations with the DfT are well advanced and preferred bidders have been announced for both the build and supply of the trains and the associated financing through a Rolling Stock Leasing Company.

A major £20m scheme to improve accessibility at eight stations will be completed in 2014, providing new lifts and footbridges, accessible toilets and low counter ticket windows.

A £6.5m scheme has been completed that provides extra car parking at Winchester, Farnborough and Fleet stations.

Key Performance Indicators (KPIs)

The Alliance monitors actual performance against target across an extensive suite of KPIs. These KPIs monitor progress against each of our core business goals (safety, operational performance, customer service, people and efficiency).

The KPIs that we measure against include:

Safety

- Passenger movement accidents
- Passenger non-movement accidents
- Workforce lost time accidents
- Employee physical assaults

Our safety KPIs were affected by the adverse weather, which represented a huge safety risk.

Through the Executive Safety and Compliance Board we are always looking for ways in which our safety environment can be improved.

Despite the adverse weather, our passenger non-movement accidents (slips, trips and falls) have only slightly increased year on year to 7.3 accidents per 10 million station footfall. This compares with 7.1 per 10 million in the previous year.

Whilst there has been a slight increase in the number of SSWT workplace accidents (50.5 accidents per million hours worked compared to 49.1 in the previous year), it is considerably lower than 55.2 accidents per million experienced in the 2011/12 financial year.

Again there is an increase in the number of work place assaults (28.1 incidents per million hours worked compared to 21.9 incidents in the previous year). We continue to ensure that our 'at risk' staff are trained in conflict avoidance measures.

Performance

- Public Performance Measure
- Right Time Arrivals

Our operating performance KPIs have been significantly adversely affected by the severe weather and the fragility of the Network Rail infrastructure. The moving annual average indices for both the Public Performance Measure (PPM) and the Right Time Arrival (RTA) have fallen from 91.5% (PPM) and 66.8% (RTA) at the start of the financial year to 89.6% (PPM) and 64.4% (RTA) at the end of the year.

This is despite the Alliance having focussed on performance improvement activities. A number of key action plans are in place / in development to improve performance throughout the coming year.

Customer Service

- National Passenger Survey results
- Customer complaints

The overall customer satisfaction measure as monitored through the National Passenger Survey reduced to 79% in the spring 2014 survey. The corresponding result in the Autumn 2013 survey was 85%, and the Spring 2013 was 81%.

The reduction in the customer satisfaction level is intrinsically linked to operational performance and the spring 2014 survey was carried out between 2 February and 13 April, when many passengers still experienced the impact of some of the most extreme weather in 250 years.

As a consequence of the extreme weather, our customer service centre has been inundated with passenger contacts. To address the volume increase we have engaged additional resource, utilised volunteer managers and have introduced 24 hour working in the customer service centre.

There are other KPIs as follows with overall performance discussed in the Directors' Report.

People

- Staff attendance
- Employee engagement

Strategic report (continued)
For the 52 weeks ended 26 April 2014

Efficiency
- Passenger revenue
- Controllable costs
- Profit
- Cash flow liquidity ratio
- Capital expenditure

Results and dividends

Turnover (passenger revenue) for the 52 weeks ended 26 April 2014 was £910.1m (2013: £866.8m), which reflects year-on-year turnover growth of around 5%.

Profit after tax for the financial period amounted to £21.8m (2013: £17.6m) and has been appropriated as follows:

	2014
	£000
Profit for the financial period	21,835
Dividend: £80,000 per ordinary share	(16,000)
Profit for the year ended 26 April 2014	5,835

Interim dividends of £16.0m have been declared (2013: £17.5m).

After taking into account retained profits brought forward, the company ended the year with retained profits of £7,719,000.

The results include Franchise Premia of £461.2m (2013: £415.1m).

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. The economy, whilst undoubtedly improving, is still fragile and whilst revenue growth was higher than most of the retail sector, growth was lower than we predicted at the outset of the financial year. The income shortfall compared to the original bid is significantly 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. We have taken action to mitigate the impact of below bid levels of revenue, 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.

Approved by the Board on 15 July 2014 and signed on behalf of the Board by

a West

Andrew C West
Director Dated 17 July 2014

Directors' report
For the 52 weeks ended 26 April 2014

The Directors present their annual report and the audited financial statements for the 52 weeks ended 26 April 2014.

Results and Dividend

The results for the year to 26 April 2014 are set out in the profit and loss account on page 13. The results for the year and future developments have been discussed in the Strategic report on page 2. The company paid dividends of £16,000,000 in the current year (2013: £17,500,000).

Research and Development

The company continues to invest in the development of technological solutions to improve performance, to reduce environmental emissions and to improve efficiency. In particular, in conjunction with trusted partners, the company are introducing modifications to rolling stock that will meet the objectives set out above. The capital cost of these modifications is met by the Rolling Stock Company that owns the trains with SSWT incurring an incremental lease charge.

Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:-

— Martin A Griffiths
— Ross J Paterson
— Timothy C Shoveller
— Jacob H Kelly
— Christian Roth
— Andrew C West

Donations

The company have not made any donations to a registered political party, or other political organisations in the financial year.

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 Group level by a central Group Treasury function. Purchases of electricity used for operating trains are made through a collective arrangement, where all train companies using traction electricity agree a purchase profile and purchase collectively through the Network Rail contract. The company has adopted policies that require appropriate credit checks to be performed on potential customers before sales are made.

Employees

We continue to deliver strong results on our people agenda, with employee engagement continuing to rise, with attendance levels in excess of 97.5% across all grade groups and in our recent people survey, Tell Us, 74% of employees said they were proud to work for us. The employee engagement score emerging from this survey was 713, up from 709 in the previous year. People are at the centre of our business and our people-centred strategy is one of our 5 key business goals.

Our Employee Communications team delivers key messages through a number of channels including our employee intranet site, "The Platform", which is available to all employees both at work and at home.

We publish two regular news bulletins, "e-news" distributed fortnightly and "Team Talk" distributed monthly. These provide news stories about our business and personal local stories which celebrate the achievements of our staff. In addition to these updates, we run a six-weekly senior management update and a bi-annual management conference for all managers to cascade key information regarding our business performance.

The continued constructive relationships with our recognised trade unions (ASLEF, UNITE, RMT and TSSA) are a very important element to delivering high employee engagement. Twice a year, we formally meet with our full Company Council, consisting of senior elected representatives from each Union and our Executive team. The objective of these meetings is to provide our employee representatives with a full business update. In addition to these meetings, each of our key business functions regularly meet with function-specific employee representatives to discuss key business issues regarding our employees.

Employee recognition continues to be a key driver of our people strategy. As part of the Stagecoach Group, all SSWT employees benefit from the opportunity to join the Stagecoach "Buy As You Earn" share scheme. Our "You're a Star" scheme recognises staff excellence every month and our Star Teams programme celebrates teams that have delivered beyond expectations. We also have an employee discounts scheme, which provides our employees with generous discounts from a variety of High Street retailers.

Our Inclusion and Diversity strategy fully supports our Equality policy. The Equality policy clearly sets out our commitment to treating all staff and job applicants fairly, in particular with regard to selection and recruitment, promotions, transfers, training and development, rostering, overtime, discipline and grievance, pay and benefits and redundancy. This policy prohibits discrimination, harassment, victimisation or other unlawful treatment based on someone's age, disability, gender reassignment, marital or civil status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

Our commitment to continuous professional development continues and we operate an NVQ programme for our employees. Currently, we have 241 trainees working towards the Government Apprenticeship NVQ scheme. Following accreditation from the Institute of Leadership, we are able to award the prestigious ILM Level 3 Award in Leadership and Management.

Health and Safety

Working safely is fundamental to everything we do at SSWT. Maintaining a safe environment is one of our 5 key business goals. Through the Alliance with Network Rail, we have improved the safety environment for both our employees and customers and have a "joined up" approach in respect of risk identification and the management of safety risk.

Safety issues are discussed at every weekly Executive meeting and a thorough review of safety incidents is undertaken at the Executive Safety & Compliance Board that meets on a four-weekly basis.

We have used the RSSB (Railway Safety Standards Board) Safety Risk Model (SRM) in order to identify and assess our top safety risks in a consistent and systematic way. The SRM uses accident data from both SSWT and Network Rail Wessex to quantify our most significant 'hazardous events' and the factors contributing to these events.

When we looked at our top 50 hazardous events, we found that they fitted into a number of distinct risk areas with the potential to affect our customers, our staff and contractors and members of the public. These risk areas are shown below and form the basis of the commitments outlined in our Safety Policy Statement:

1. Suicides
2. Slips, Trips and Falls
3. Trespass
4. Platform/Train Interface
5. Level Crossings
6. Assaults
7. Workforce Injuries
8. On-Train Accidents
9. Station Accidents
10. Passenger Train Derailment / Collision

Whilst the SRM provides us with a good indication of the risks we currently face, there are a number of other factors that we have also considered when developing the commitments within our Safety Policy Statement. For example, we have included objectives around work in our traincare depots and have identified objectives to mitigate emerging issues that the SRM is not designed to assess - such as increasing passenger volumes and infrastructure defects.

Our commitments, based on our risks, are delivered via our Safety & Environment Improvement Plan. Each objective within the Plan has a Director accountable for its delivery. Each accountable Director has developed action plans in order to deliver their objectives. The action plans detail resources needed to deliver the objective and the target dates for delivery. Progress against objectives is tracked via our Recommendations Tracking Database and reviewed by the Executive Safety & Compliance Board on a regular basis.

Corporate Social Responsibility

SSWT 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. Now, as the Alliance, we have developed a joint environmental strategy which identifies our main risks as a South Western Railway. These are:

1. Energy use
2. Lineside Stewardship
3. Waste management
4. Climate change
5. Nuisance incidents

The environment strategy will seek to reduce these risks, and identify other areas for improvement.

Delivery of this strategy is co-ordinated by our Environmental Manager.

In recent years, we have made good progress in reducing both traction and non-traction carbon emissions. Schemes initiated that are driving this improvement include:-

- The introduction of regenerative braking on a number of our fleets.
- The introduction of an eco-driving strategy to encourage our drivers to drive in an energy efficient way.
- The investment in a number of schemes at our stations and depots that improve the efficiency of lighting and heating systems including the introduction of intelligent lighting systems and the expansion of LRD lighting schemes.
- We have a number of voluntary "Green Champions" that progress local initiatives and help raise awareness.

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. Key initiatives that we have implemented to improve waste management include:-

- Mixed recycling scheme rolled out across all stations.
- Backing boards, communicating our mixed recycling commitment continue to be rolled out to spread the message throughout our stations.
- A mixed recycling contract has been rolled out at our Traincare depots resulting in a large percentage of our waste being recycled.
- To spread the message throughout our business, mixed recycling as also been installed within all of our main offices, including Springpark, Friars Bridge Court, Overline House and the Raft at Waterloo.
- We hold an annual Green Week to improve the awareness and understanding of both our employees and passengers.

Statement of Directors' Responsibilities

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

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)
For the 52 weeks ended 26 April 2014

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.

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 section 418 of 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 independent 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.

Approved by the Board on 15 July 2014.

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

On behalf of the Board

A C West

Andrew C West
Company Secretary

Independent auditors' report to the members of Stagecoach South Western Trains Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 26 April 2014 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.

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

What we have audited

The financial statements, which are prepared by Stagecoach South Western Trains Limited, comprise:

- the balance sheet as at 26 April 2014;
- the profit and loss account and statement of total recognised gains and losses for the period then ended;
- the reconciliation of movements in shareholders' funds for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial 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)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 9 and 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Martin Cowie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
17 July 2014

Profit and loss account

For the 52 weeks ended 26 April 2014

	Note	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Turnover	2	**910,145**	866,837
Other operating income		**215,562**	178,073
Other operating costs		**(461,239)**	(415,095)
Operating costs		**(644,913)**	(612,468)
Operating profit	3	**19,555**	17,347
Interest receivable and other similar income	4 (a)	**11,144**	7,293
Interest payable and other similar income	4 (b)	**(1,021)**	(921)
Profit on ordinary activities before taxation		**29,678**	23,719
Tax on profit on ordinary activities	7	**(7,843)**	(6,158)
Profit for the financial period	20	**21,835**	17,561

The profits for the periods are derived wholly from continuing operations.

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

Balance sheet
As at 26 April 2014

	Note	26 April 2014	27 April 2013
		£000	£000
		52 weeks	52 weeks
Fixed assets			
Investments	9	**-**	-
Intangible fixed assets	10	**2,994**	4,074
Tangible fixed assets	11	**36,012**	39,672
		39,006	43,746
Current assets			
Stocks	12	**3,821**	2,196
Debtors: amounts falling due within one year	13	**188,080**	173,621
Debtors: amounts falling due after more than year	13	**8**	14
Deferred tax asset	14	**1,457**	1,992
Cash at bank and in hand		**95,694**	131,239
		289,060	309,062
Creditors: amounts falling due within one year	15	**(284,239)**	(308,106)
Net current assets		**4,821**	956
Total assets less current liabilities		**43,827**	44,702
Provision for liabilities	16	**(9,746)**	(10,699)
Net assets excluding pension liability		**34,081**	34,003
Pension liability	17	**(20,770)**	(25,720)
Net assets including pension liability		**13,311**	8,283
Capital and reserves			
Called up share capital	18	**-**	-
Share premium	18	**200**	200
Other reserve	19	**5,392**	5,193
Profit and loss account	20	**7,719**	2,890
Total Shareholders' funds		**13,311**	8,283

The financial statements on pages 13 to 35 were approved by the board of directors on 15 July 2014.

Signed on behalf of the Board

A West.

Andrew C West

Director

17 July 2014

Statement of total recognised gains and losses

For the 52 weeks ended 26 April 2014

	Note	**26 April 2014**	27 April 2013
		£000	£000
		52 weeks	52 weeks
Profit for the financial period		**21, 835**	17,561
Recognition of net actuarial loss on defined benefit pension schemes	21 (b)	**(5)**	(2,179)
Recognition of tax on net actuarial gains and losses on defined benefit pension schemes	14	**(1,001)**	137
Total recognised gains relating to the period		**20,829**	15,519

Reconciliation of movements in shareholders' funds

For the 52 weeks ended 26 April 2014

	Note	**26 April 2014**	27 April 2013
		£000	£000
		52 weeks	52 weeks
Profit for the financial period		**21,835**	17,561
Dividends	5	**(16,000)**	(17,500)
Retained profit for the financial period		**5,835**	61
Recognised loss on defined benefit pension schemes relating to the period	21 (b)	**(1,006)**	(2,042)
Share based payments charge	19	**199**	316
Net increase/(decrease) in shareholders' funds		**5,028**	(1,665)
Opening shareholders' funds		**8,283**	9,948
Closing shareholders' funds		**13,311**	8,283

Notes to the financial statements
For the 52 weeks ended 26 April 2014

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 26 April 2014

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 12 years
Plant, fixtures and fittings	3 to 12 years
Assets Under Construction	Nil

The estimated useful live of relevant assets was extended to 31st March 2019 to reflect the potential franchise extension to that date.

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 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.

1. Accounting policies (continued)

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.

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) Cash flow 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.

Notes to the financial statements (continued)
For the 52 weeks ended 26 April 2014

1. Accounting policies (continued)

k) Retirement benefit obligations (continued)

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.

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.

1. Accounting policies (continued)

o) Share-based payments

Certain of the company's employees are granted equity settled share based payments by the parent company.

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 26 April 2014 (2013: £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):

		26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Staff costs (note 6e)		**205,326**	195,024
Depreciation (note 11)		**3,675**	3,615
Auditors' remuneration – for audit of the Company's financial statements		**95**	95
Network Rail charges:	- Track access	**89,734**	76,901
	- Variable track access	**11,798**	12,198
	- Station leases/long-term station charges/access	**39,413**	37,121
	- Depot leases	**9,783**	9,569
	- Electric traction charge	**33,442**	31,354
	- Other performance recoveries	**(17,356)**	(12,787)
Operating lease rentals	- Passenger rolling stock	**111,667**	109,481
Franchise grant		**461,239**	415,095
Revenue support/franchise rebate		**(160,245)**	(133,457)
Rental income		**(6,810)**	(6,979)
Repairs and maintenance		**8,350**	12,373
Amortisation of intangible assets (note 10)		**1,080**	1,082

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 £10,000 (2013: £9,300) 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

	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Bank deposits and short term loans	**1,972**	1,746
Group interest receivable	**325**	291
Net pension finance income (note 21b):		
- Expected return on assets	**24,427**	21,841
- Interest on pension scheme liabilities	**(20,084)**	(19,866)
- Unwinding of franchise adjustment	**4,504**	3,281
	11,144	7,293

b) Finance Charges

	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Interest paid	**945**	843
Bank charges	**76**	78
	1,021	921

Notes to the financial statements (continued)
For the 52 weeks ended 26 April 2014

5. Dividends

	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Interim dividend: £80,000 per ordinary share (2013: £87,500)	16,000	17,500

6. Information regarding directors and employees

a) Directors emoluments

Emoluments of directors were:

	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Aggregate emoluments	1,159	803

During the year four directors exercised share options (2013: one).

b) Pensions

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

	26 April 2014 Number	27 April 2013 Number
Defined benefit schemes	2	2

c) Highest paid director

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

	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Total emoluments	401	299

The highest paid director in the period ended 26 April 2014 had £57,749 accrued pension entitlement under the company's defined benefit scheme (2013: £2,845) and £46,749 accrued lump sum entitlement at 26 April 2014 (2013: £2,364).

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

By activity	26 April 2014 Number	27 April 2013 Number
Operations/Engineering	2,855	2,829
Commercial/Retail	1,568	1,551
Management/Administration	187	182
	4,610	4,562

Notes to the financial statements (continued)
For the 52 weeks ended 26 April 2014

6. Information regarding directors and employees (continued)

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

	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Wages and salaries	166,242	158,897
Social security costs	13,597	12,873
Pension costs	25,245	22,469
Share based payments	242	785
	205,326	195,024

7. Tax on profit on ordinary activities

a) Charge for the period	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
Current tax:		
UK corporation tax on profits of the period	5,572	4,532
Adjustments in respect of prior periods	248	(693)
Total current tax	5,820	3,839
Deferred tax:		
Origination and reversal of timing differences	1,573	1,566
Adjustments in respect of prior periods	450	753
Total deferred tax	2,023	2,319
Tax on profit on ordinary activities	7,843	6,158

b) Factors affecting the tax charge for the period	26 April 2014 £000 52 weeks	27 April 2013 £000 52 weeks
The tax assessed for the period is lower (2013: lower) than the standard rate of corporation tax in the UK of 22.84% (2013 23.92%) The differences are explained below:		
Profit on ordinary activities before taxation	29,678	23,719
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 22.84% (2013: 23.92%)	6,778	5,674
Effect of:		
Non tax deductible expenditure and other permanent differences	35	358
Treatment of inter-company transactions	20	28
Capital allowances for the period in excess of depreciation	512	(367)
Other pension costs	(1,700)	(1,247)
Share based payments	(73)	86
Adjustments in respect of prior periods	248	(693)
Current tax charge for the period (note 7a)	5,820	3,839

7. Tax on profit on ordinary activities (continued)

c) Factors that may affect future tax charges

During the year, a change in the UK Corporation tax rate from 23% to 21% was enacted on 23 July 2013 and became effective from 1 April 2014.

In addition, legislation to reduce the main rate of corporation tax from 21% to 20% from 1 April 2015 was included in the Finance Act 2013, which was substantively enacted on 2 July 2013. The impact of this change has been reflected in the closing deferred tax balance .

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:

	2014	2013
	£000	£000
Under one year	-	867
Between one year and five years	130,570	130,859

Annual commitments under other operating leases expiring as follows are:

	2014 £000		2013 £000	
	Land and Buildings	Other	Land and Buildings	Other
Under one year	-	-	2,312	20,865
Between one year and five years	3,330	58,628	835	94,758
	3,330	58,628	3,147	115,623

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.

9. Investments (continued)

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

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.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

10. Intangible fixed assets

	Franchise transition costs	Rail franchise	**Total Intangible Assets**
	£000	£000	**£000**
Cost			
At 27 April 2013	274	10,532	**10,806**
As at 26 April 2014	274	10,532	**10,806**
Accumulated amortisation			
At 27 April 2013	171	6,561	**6,732**
Amortisation for the period	27	1,053	**1,080**
As at 26 April 2014	198	7,614	**7,812**
Net Book Value at 27 April 2014	76	2,918	**2,994**
Net Book Value at 26 April 2013	103	3,971	**4,074**

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 26 April 2014

11. Tangible fixed assets

	Buildings - Short Term Leasehold	Plant, fixtures and fittings	Assets under construction	**Total Fixed Assets**
	£000	£000	£000	**£000**
Cost				
At 27 April 2013	9,256	16,306	41,825	**67,387**
Additions	4	2,965	31,642	**34,611**
Disposals	-	(800)	(33,796)	**(34,596)**
Transfers	376	1,386	(1,762)	-
At 26 April 2014	9,636	19,857	37,909	**67,402**
Accumulated Depreciation and Impairment				
At 27 April 2013	4,696	7,005	16,014	**27,715**
Charge for the period	1,227	2,448	-	**3,675**
At 26 April 2014	5,923	9,453	16,014	**31,390**
Net Book Value at 26 April 2014	**3,713**	**10,404**	**21,895**	**36,012**
Net Book Value at 27 April 2013	4,560	9,301	25,811	**39,672**

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 £6m at 26 April 2014 (2013: £ 20.9m). These assets are classified as "Assets under construction" at both balance sheet dates and have not therefore been depreciated.

12. Stocks

	2014	2013
	£000	£000
Raw materials and consumables	**3,821**	2,196

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

13. Debtors

	2014	2013
	£000	£000
Amounts falling due within one year:		
Trade debtors	**81,457**	77,526
Amounts owed by group undertakings	**59,511**	56,458
VAT debtors	**6,984**	6,481
Other debtors	**16,112**	13,610
Prepayments and accrued income	**24,016**	19,546
	188,080	173,621
Amounts falling due after more than one year:		
Employee loans	**8**	14

Notes to the financial statements (continued)
For the 52 weeks ended 26 April 2014

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 £58.0m (2013: £55.0m) 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 £0.1m (2013: £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

	2014 £000	2013 £000
Accelerated capital allowances	**185**	419
Other timing differences	**1,272**	1,573
Deferred tax asset excluding that related to pension liability	**1,457**	1,992
Deferred tax asset related to pension liability (note 21b)	**5,193**	7,682
Deferred tax asset	**6,650**	9,674
Asset as beginning of the period	**9,674**	11,856
Deferred tax charge in profit and loss account (note 7a)	**(2,023)**	(2,319)
Deferred tax (charged)/credited to the statement of total recognised gains and losses	**(1,001)**	137
Total asset at end of the period	**6,650**	9,674

15. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	**91,329**	99,842
Amounts owed to group undertakings	**6,735**	6,714
Deferred season ticket income	**58,502**	56,686
Corporation tax creditor	**2,162**	1,959
Other tax and social security	**5,134**	4,783
Accruals and deferred income	**120,377**	138,122
	284,239	308,106

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 £000
At 27 April 2013	**738**	**9,961**	**10,699**
Charged to the profit and loss account	200	448	**648**
Utilised in period	(553)	(1,048)	**(1,601)**
At 26 April 2014	**385**	**9,361**	**9,746**

Notes to the financial statements (continued)
For the 52 weeks ended 26 April 2014

16. Provisions for liabilities (continued)

A provision of £0.2m (2013: £0.7m) 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 £9.4m (2013: £10m) 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

	2014	2013
	£000	£000
Gross pension liability (note 21b)	**(25,963)**	(33,402)
Deferred tax asset (note 14)	**5,193**	7,682
Pension liability, net of deferred tax	**(20,770)**	(25,720)

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

	2014	2013
	£	£
Allotted, called-up and paid:		
200 (2013: 200) ordinary shares of £1 each	**200**	200

	Number of Shares	Ordinary Shares	Share Premium	**Total**
		£	£	**£**
As at 26 April 2014 and 27 April 2013	200	200	199,800	200,000

19. Other reserve

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

	£000
As at 27 April 2013	5,193
Share based payments charge	199
As at 26 April 2014	**5,392**

20. Profit and loss account

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

	2014
	£000
As at 27 April 2013	2,890
Profit for the financial period	21,835
Dividend	(16,000)
Recognised gain and losses on defined benefit pension schemes	(1,006)
As at 26 April 2014	**7,719**

21. Guarantees and other financial commitments

a) Capital commitments

	2014	2013
	£000	£000
Capital commitments on station improvements, major projects and other capital items	**4,290**	5,358

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 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 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 31 December 2013 review is in progress but not complete resulting in the 2010 one being used. 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	4.50

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 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 undertaken upon updated assumptions that have 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:

	26 April 2014	27 April 2013
	%	%
Rate of increase in salaries	**3.8**	3.7
Rate of increase of pensions in payment	**2.3**	2.2
Discount rate	**4.5**	4.4
Rate of inflation	**3.3**	3.2

The life expectancy assumptions used for each scheme are periodically reviewed and as at 26 April 2014 were:

	26 April 2014	27 April 2013
Current pensioner aged 65 - male	**19.8**	19.7
Current pensioner aged 65 – female	**23.6**	23.5
Future pensioners at age 65 – (aged 45 now) – male	**22.1**	22.0
Future pensioners at age 65 – (aged 45 now) – female	**25.8**	25.7

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

	2014	**2014**	2013	2013
	%	**£000**	%	£000
Equities	**8.3%**	**404,445**	8.3%	380,120
Bonds	**4.0%**	**70,485**	3.7%	66,245
Cash	**3.6%**	**2,797**	3.0%	2,629
Property	**7.5%**	**81,672**	7.5%	76,760
Total		**559,399**		525,754

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

	2014 £000	2013 £000
Charge to operating profits		
- Current service cost	24,462	21,641
Total operating charge	24,462	21,641
Finance income		
- Expected return on assets	(24,427)	(21,841)
- Interest on pension scheme liabilities	20,084	19,866
- Unwinding of franchise adjustment	(4,504)	(3,281)
Net return	(8,847)	(5,256)

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 £783,545 (2013: £829,076) as defined contribution pension expenses.

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

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Actual return less expected return on pension scheme assets					
- Amount	2,293	29,044	(24,116)	20,395	75,417
- Percentage of scheme assets	0.41%	5.52%	(5.20%)	4.38%	18.1%
Experience (losses)/gains arising on the scheme liabilities					
- Amount	(16,466)	10,885	(12,250)	(16,167)	31,190
- Percentage of the present value of the scheme liabilities	2.81%	1.95%	2.45%	(3.47%)	7.0%
Changes in assumptions underlying the present value of the scheme liabilities	(265)	(78,097)	51,370	248	(169,235)
Change in Franchise adjustment	14,433	35,989	(17,492)	(12,862)	47,262
Total actuarial loss recognised in STRGL					
- Amount	(5)	(2,179)	(2,488)	(8,386)	(15,366)
- Percentage of the present value of scheme liabilities	(0.00%)	(0.39%)	(0.50%)	(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 financial statements.

21. Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

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

	2014 £000	2013 £000
Deficit in the scheme at the beginning of the period	(33,402)	(36,433)
Movement in the year:		
- Current service cost	(24,462)	(21,641)
- Contributions	23,059	21,595
- Other finance income	8,847	5,256
- Actuarial loss	(5)	(2,179)
Deficit in the scheme at the end of the period	(25,963)	(33,402)

The balance sheet amounts as at 26 April 2014 measured in accordance with the requirements of FRS 17 were as follows:

	2014 £000	2013 £000
Total market value of assets	559,399	525,754
Present value of scheme liabilities		
- Gross liabilities	(804,835)	(752,027)
- Adjustment for members' share of deficit (40%)	98,174	90,509
- Franchise adjustment	121,299	102,362
	(585,362)	(559,156)
Pension liability before tax	(25,963)	(33,402)
Related deferred tax asset	5,193	7,682
Net pension liability (note 17)	(20,770)	(25,720)

Reconciliation of fair value of scheme assets	2014 £000	2013 £000
At 27 April 2013	525,754	464,147
Expected return on plan assets	24,427	21,841
Actuarial gains	2,293	29,044
Employers contributions	23,059	21,595
Members contributions	4,403	3,887
Benefits paid	(20,537)	(14,760)
At 26 April 2014	559,399	525,754

Reconciliation of present value of scheme liabilities	2014 £000	2013 £000
At 27 April 2013	(559,156)	(500,580)
Current service costs	(24,462)	(21,641)
Interest costs	(20,084)	(19,866)
Unwinding of franchise adjustment	4,504	3,281
Members contributions	(4,403)	(3,887)
Actuarial gains/ (losses) - experience gains and losses	(16,466)	10,885
Franchise adjustment	14,433	35,989
Actuarial (losses)/gains - changes in assumptions	(265)	(78,097)
Benefits paid	20,537	14,760
At 26 April 2014	(585,362)	(559,156)

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 £24.6m.

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 26 April 2014, National Transport Tokens Limited redeemed tokens presented by the Company with a value of £nil (2013: £13,952). As at 26 April 2014 the Company has a receivable of £nil (2013: £552) owed by National Transport Tokens Limited.

23. Share based payments

The Company operates a Buy as You Earn ("BAYE") 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.

Buy as You Earn Scheme

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every share 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 26 April 2014 there were 2,168 (2013: 2,019) participants in the BAYE scheme who have cumulatively purchased 963,148 (2013: 621,633) shares with the Company contributing 303,572 (2013: 196,398) matching shares on a cumulative basis. Dividends had been reinvested in a further 40,018 (2013: 14,872) for these participants.

Notes to the financial statements (continued)
For the 52 weeks ended 26 April 2014

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	10-Dec-09	28-Jun-10	30-Jun-11	27-Jun-12	27-Jun-13	Total
Outstanding at start of year (notional units)	62,320	121,210	121,724	87,368	-	392,622
Awards granted in year (notional units)	-	-	-	-	75,253	75,253
Exercised in year (notional units)	(62,320)	(121,210)	-	-	-	(183,530)
Intra group transfers (notional units)	-	-	13,552	12,797	-	26,349
(notional units)	-	-				
(notional units)	-	-				
Dividends in year (notional units)	-	-	3,465	2,571	1,925	7,961
Outstanding at end of year (notional units)	-	-	138,741	102,736	77,178	318,655
Vesting date	27-Jun-13	28-Jun-13	30-Jun-14	27-Jun-15	27-Jun-16	
Expected total value of award at time of grant (£)	88,918	237,813	251,405	225,360	233,811	
Closing share price on date of grant (£)	1.61	1.90	2.55	2.62	3.16	

24. Ultimate parent company

The immediate parent undertaking is Stagecoach Rail Holdings 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