East Midlands Trains Limited

Financial statements for the 52 weeks ended 30 April 2011

Registered number: 5340682

Contents

Directors' report

Registered Number: 5340682

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

Principal activities

The principal activity of the company is the provision of passenger railway services on the following routes:

- Inter city services between London St Pancras International and Sheffield, Derby, Leicester and Nottingham. This route includes services to towns in Nottinghamshire, Derbyshire, Leicestershire, Northamptonshire and Bedfordshire
- Regional inter urban services between Norwich and Liverpool
- Local services serving Crewe, Stoke-on-Trent, Matlock, Mansfield, Skegness, Grimsby and Lincoln

The company also operates 90 railway stations across the above routes on the rail network and three train maintenance depots in Yorkshire, Nottinghamshire and Derbyshire.

Review of business and future developments

East Midlands Trains was awarded the East Midlands Rail Franchise in June 2007, and commenced operations on 11 November 2007.

2010/11 has been a year of development for the company as it has sought to continue to improve services for passengers and grow the business in the challenging economic environment, following the 2008-2010 recession in the UK economy.

In May 2010, the company introduced timetable changes on the Corby/London route, substantially improving off-peak journey times between Corby and London. This was accompanied by the introduction of direct services between Corby and Derby, providing links to East Midlands Parkway (for East Midlands Airport) and connections into services for Scotland and the North of England (at Derby). These service improvements have been well received and resulted in substantial growth in the number of passengers travelling from Corby station.

Other routes also benefitted from improved timetables during the year, including additional services between Beeston and Leicester, between Derby and Nottingham, and at Bulwell, Carlton, Chesterfield and Chinley.

The refurbishment of the company's class 158 trains and High Speed Trains was completed during the year, providing a bright and fresh internal appearance to passenger accommodation, as well as the provision of power points in First Class allowing passengers to work more easily on the move. Refurbishment of the remaining trains in the fleet (the Class 153s and 156s, and the Meridian fleet) commenced during the year. On-board Wi-Fi was introduced to the Meridian and High Speed Train fleets during the year.

Reliability modifications continue to be implemented. The performance of all train fleets improved during the year, including that of the Meridian fleet maintained by Bombardier at Derby. The company's Class 153 fleet is now the best performing fleet of its type in the UK and the Class 158 and HST fleets are second in class.

Investment has also been made to improve the company's stations. In November 2010, the company opened a new Business Lounge at East Midlands Parkway station and this was followed by a new First Class Lounge at Sheffield station in January 2011. A number of stations benefitted from totally refurbished station toilets and waiting rooms during the year. The company is committed to improving facilities for disabled customers and investment in station accessibility improvements has continued during the year.

The improvements to the eastmidlandstrains.co.uk website in 2009/10, including the introduction of a 'Best Fare Finder', resulted in a significant increase in online sales during the 2010/11 year. The company's summer 2010 marketing campaign featuring 'Jedward' from ITV's X-Factor programme significantly helped this increase in sales and also won an award at the Rail Business Awards in February 2011.

2010/11 has been a challenging year financially for the company. This is despite achieving growth in passenger revenue of over 5%. Profitability has been affected by contractual increases in franchise premia payments to the Department for Transport (Dft). In addition, the rising cost of fuel and materials has put pressure on the company's cost base.

Directors' report (continued)

Review of business and future developments (continued)
Safety continues to be at the heart of everything we do at East Midlands Trains and this is reflected in the high standard of railway operations in the period. During the year the company has continued to work closely with the Rail Accident Investigation Branch and Bombardier to investigate the causes of the partial derailment of a passenger train in February 2010 and the findings of this investigation are expected to be published later in 2011. Representatives from EMT are directly involved in national initiatives to reduce the number of level crossing incidents and suicides involving trains.

The company delivered a significant improvement in train punctuality during the year. At the end of the financial period, on a moving annual average basis, 92.0% of trains arrived at final destination within 10 minutes for inter city and inter urban services and 5 minutes for other services as defined by the "PPM" (Public Performance Measure). This compares with 86.5% at the start of the franchise. PPM in excess of 93% (as a moving annual average) was achieved during the year until extreme snowfall in December 2010 caused significant disruption to some services for a number of days. The company worked hard to keep passengers informed during this disruption and sent more than 2 million emails to customers over the three days.

East Midlands Trains is pursuing a number of environmental initiatives to reduce its carbon footprint and energy costs. In August 2010, Energy Saving Mode was introduced to the Meridian fleet to enable engines to be shut down when trains are standing in stations or at depots. In September 2010, the company won the Environmental Excellence award at the National Rail Awards, for this initiative.

The company's efforts to improve its service to passengers were recognised in the National Passenger Survey with the highest ever level of satisfaction being achieved in the Autumn 2010 survey. In the survey, 88% of our passengers said they were satisfied with their service, representing a 4% year on year increase and up 13% since we took over the franchise. East Midlands Trains were the only UK train operator to achieve a year on year improvement in satisfaction.

Results and dividends

The company actively traded for the entire period of these financial statements.

Turnover for the period ended 30 April 2011 was £297.8m (2010: £282.0m). Passenger revenue, an element of the turnover, increased by 5.4% (2010: 0.4% decrease)

The loss after tax for the financial period amounted to £19,809,000 (2010: profit £2,009,000).

No interim dividends have been declared and no final dividend is proposed (2010: £Nil)

The results include franchise subsidy and Secretary of State Risk Assumption repayments of £30.6m (2010: £3.5m) to the DfT.

Health and safety

East Midlands Trains is continuing to perform well in controlling areas of significant risk and puts safety at the forefront of all areas of operation.

The company continues to lead the industry in the partnership approach adopted with other railway stakeholders to control risks associated with level crossings.

The rail industry remains in a state of heightened security against potential terrorist attack.

East Midlands Trains has undertaken a fundamental review of how it would deal with a major rail incident and the company's response in times of severe network disruption. This has been achieved through the introduction of new company processes supported by scenario based training carried out in Autumn 2010.

The safety management system continues to develop and evolve, with a key initiative placing focus on improving fire precaution management.

Environment

East Midlands Trains continues to directly contribute to Stagecoach Group objectives by delivering its award-winning environmental strategy. Carbon emission reductions are being achieved through improved fuel efficiency in the vehicle fleet and improved energy efficiency at our stations, engineering depots and offices. Major achievements include the delivery of an innovative fuel-efficiency project with our partners which will contribute significant reductions in fuel use. In addition, measures to reduce waste and increase recycling are providing clear environmental benefits as well as helping us to avoid future cost increases.

From activities throughout the year, including our annual Green Week, we continue to have a workforce who are engaged in making environmental improvements. Employee surveys and ongoing communication provides our people with information about initiatives across the business and the opportunity to make suggestions for further improvements.

We continue to enhance and develop our management of environmental risk through the development of our EN ISO14001 certified depot systems. These are helping to ensure ongoing legal compliance and effective management and control of our significant environmental risks. This risk-based approach is producing continual improvements in our practices and processes.

Directors and their interests

The directors of the company during the period and up to the date of signing were:-

Martin A Griffiths
Timothy C Shoveller
David Horne
Richard Bodicoat
Mark S Steward
Margaret Kay
David Maxwell
Timothy Sayer

Jacob Kelly resigned as an East Midlands Trains Ltd Director on 01 September 2010

No director had any interest in the issued share capital of the company during the financial period.

The company entered into no significant contract or arrangement during the period in which any director had a material interest.

Employees

Employees are at the heart of the company's strategy to deliver its business plan. Objectives are achieved through training, developing and engaging employees in delivering a great service to customers and maintaining high operational standards.

Directors' report (continued)

Employees (continued)

Recruitment and re-organisation
East Midlands Trains Limited has just over 2,000 employees across the network. The revised organisation structure that was put in place as a result of the redundancies in 2009 has proved to be successful with customers not being disadvantaged by these changes and the fundamental customer offering remaining unchanged. The company is committed to equal opportunities selection.

The occupational health service for East Midlands Trains Limited has resulted in greater efficiency, effectiveness and consistency in managing the attendance and well-being of all employees.

Disabled employees
The company's policies for recruitment, training, career development and promotion of employees are based on suitability of the individual and give those who are disabled equal treatment with the able bodied. Where appropriate, employees disabled after joining the company are given suitable training for employment with the company or elsewhere in the Group.

Training and development
East Midlands Trains Limited invests in its people and encourages them to reach their full potential, because it is their contribution and efforts that will help the company achieve its vision.

The dedicated Training Academy offers a range of vocational training courses to staff including retail training and safety critical work for on train teams. A second programme of management training courses was completed in 2010. Numerous skills for life and computer skills courses were offered to all employees via the Rail Union Learning initiative.

Engagement and communication
Technological improvements have enabled all staff to access the company's dedicated employee intranet site from any computer, regardless of location. The intranet site has continued to be developed, and a Managing Director blog is now well established and is a key method of two way dialogue between the Managing Director and all employees. A face to face team briefing takes place as a minimum four times a year across the whole company, with a consistent message delivered by local managers. A Senior Management Update is held every six weeks to facilitate the sharing of key messages throughout the management population.

The company ran an employee roadshow across a number of locations during May/June 2011, to present the Business Plan to employees as well as to promote employee well-being, environmental and safety issues.

Employee representation
Extensive communication with the trade unions, covering the company's employees, has taken place in order to improve working relationships.

Staff representatives have been consulted on a regular basis regarding issues that affect them. East Midlands Trains will continue to work closely with the trade unions to build and improve further working relationships.

Key performance indicators

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

- safety
- service delivery
- customer service

Directors' report (continued)

Safety

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

	Period ended 30 April 2011 (Moving Annual Average)	Period ended 1 May 2010 (Moving Annual Average)
Passenger major injuries per 1 million passenger journeys	0.35	0.39
Workforce lost time accidents per 1000 employees	2.17	2.53
Employee physical assaults per 1000 employees	2.24	1.94

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 for rural routes and 10 minutes for mainline routes, having called at all scheduled stations. The severe weather in December 2010 has had an adverse effect on the Moving Annual Average.

	Period ended 30 April 2011 (Moving Annual Average)	Period ended 1 May 2010 (Moving Annual Average)
Public Performance Measure	92.0%	92.5%

Customer service

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

- The bi-annual National Passenger Survey measured on the basis of a number of criteria set by the DfT that encompass key customer service activities of the business
- The Actual Customer Experience index provides a 4-weekly, detailed measure of compliance to our customer service standards. This measure covers all aspects of the customer experience

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 adopted policies that require appropriate credit checks to be performed on potential customers before sales are made.

Directors' report (continued)

Principal risks and uncertainties

EMT, along with other rail businesses in the UK is facing a challenging operating environment as reduced economic growth and falling employment levels have a direct effect on passenger demand. With a high fixed cost base and commitments contained in the contract between EMT and the DfT that give little scope for reducing the timetable operated, the company is heavily exposed to macroeconomic conditions. Growth in the UK economy has remained weak throughout 2010/11, but despite this there has been an encouraging growth in passenger revenue in the period. The actions taken to mitigate the impact of revenue levels being below those envisaged in the initial franchise plan include a package of measures to reduce annualised costs and achieve sensible efficiencies.

In light of the exposure to the macroeconomic position, the Directors have reviewed whether the 'East Midlands' rail franchise is an onerous contract that would require to be provided for under FRS12 "Provisions, contingent liabilities and contingent assets" in the company financial statements. At the current time, based on the Directors' current projections for the business, the Directors are satisfied that the 'East Midlands' rail franchise is not an onerous contract, however they will continue to closely monitor the position.

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 20 days (2010: 17 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 period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Disclosure of information to auditors

In the case of each of the persons who were directors of the company at the date when this report was approved:

- So far as each of 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 they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

Directors' report (continued)

Independent Auditors

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 period.

On behalf of the board

Richard Bodicoat

Director
18 July 2011

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

Independent auditors' report

Independent auditors' report to the members of East Midlands Trains Limited

We have audited the financial statements of East Midlands Trains Limited for the 52 weeks ended 30 April 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities, as set out on page 7, 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 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 annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2011 and of its loss 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.

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

19 July 2011

Profit and loss account
For the 52 weeks ended 30 April 2011

	Notes	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Turnover	2	297,820	281,987
Other operating income	3	12,360	7,245
Operating costs	4	(338,023)	(285,864)
Operating (loss)/profit and (loss)/profit on ordinary activities before finance income (net) and taxation		**(27,843)**	**3,368**
Finance income/(charge) (net)	5	893	(229)
(Loss)/profit on ordinary activities before taxation		**(26,950)**	**3,139**
Taxation on loss/(profit) on ordinary activities	8	7,141	(1,130)
(Loss)/profit for the financial period	20	**(19,809)**	**2,009**

The results for both periods are derived wholly from continuing operations.

There is no difference between the (loss)/profit on ordinary activities before taxation and the (loss)/profit for both the periods stated above and their historical cost equivalents.

Balance sheet
As at 30 April 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Investments	10	-	-
Intangible assets	11	4,132	5,184
Tangible fixed assets	12	23,516	19,512
		27,648	**24,696**
Current assets			
Stocks	13	4,734	4,672
Debtors: amounts falling due within one year	14	38,445	27,444
Debtors: amounts falling due after more than one year	14	5,703	6,829
Cash at bank and in hand		46,201	36,979
		95,083	**75,924**
Creditors: amounts falling due within one year	16	(89,172)	(86,060)
Net current assets/(liabilities)		**5,911**	**(10,136)**
Total assets less current liabilities		**33,559**	**14,560**
Creditors: amounts falling due after more than one year	16	(40,878)	(2,640)
Provision for liabilities	17	(2,104)	(1,534)
Net (liabilities)/assets excluding pension liability		**(9,423)**	**10,386**
Pension liability, net of deferred tax	18	(6,964)	(5,865)
Net (liabilities)/asets including pension liability		**(16,387)**	**4,521**
Capital and reserves			
Called up share capital	19	200	200
Share premium account	20	1	1
Profit and loss account	20	(18,549)	3,101
Contribution reserve	20	1,961	1,219
Total shareholders' (deficit)/funds		**(16,387)**	**4,521**

The financial statements on pages 10 to 33 were approved by the board of directors on 18 July 2011

Signed on behalf of the Board

Richard Bodicoat
Finance Director

18 July 2011

Timothy C Shoveller
Managing Director

18 July 2011

Additional statements

For the 52 weeks ended 30 April 2011
Statement of total recognised gains and losses

	Notes	52 weeks ended 30 April 2011 £000	52 weeks ended 1 May 2010 £000
(Loss)/profit for the financial period		(19,809)	2,009
Recognition of net actuarial losses on defined benefit pension schemes	22(b)	(2,268)	(1,421)
Recognition of tax on net actuarial losses on defined benefit pension schemes	15	427	398
Total recognised (losses)/gains relating to the period		**(21,650)**	**986**

Reconciliation of movements in shareholders' funds

	52 weeks ended 30 April 2011 £000	52 weeks ended 1 May 2010 £000
(Loss)/profit for the financial period	(19,809)	2,009
Other recognised losses relating to the period	(1,841)	(1,023)
Credit in respect of equity settled share based payments	742	955
Net (decrease)/increase in shareholders' funds	**(20,908)**	**1,941**
Opening shareholders' funds	4,521	2,580
Closing shareholders' (deficit)/funds	**(16,387)**	**4,521**

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

1. Accounting policies

a) Basis of accounting

These financial statements are prepared on the going concern basis, under the historic cost convention and in accordance with the companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the period, are set out below.

At 30 April 2011, the Company had net liabilities of £16,387,000. The directors have received confirmation of continuing financial support from the ultimate holding company. Accordingly, the financial statements have been prepared on the going concern basis.

b) Intangible assets

Intangible assets acquired separately from a business combination are capitalised at cost. Amortisation of intangible assets is calculated on the straight-line method to write-off the cost of each asset over the life of the franchise (7 years and 5 months from November 2007 to March 2015).

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.

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 costs represent 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.

iii) *Customer database costs*
The customer database costs intangible asset relates to the customer and sales databases that were acquired on commencement of the rail franchise.

iv) *Revenue in advance*
The revenue in advance intangible asset relates to the liability 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 March 2015.

c) Tangible fixed assets

Tangible fixed assets comprise property, plant and equipment at original historic cost, net of depreciation, as set out in note 12.

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

Land and Buildings	3 to 10 years
Plant, fixtures and fittings	2 to 10 years

Assets in the course of construction are not depreciated until they are brought into use and on completion will be transferred to the appropriate asset class.

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

1. Accounting policies (continued)

d) Operating lease rentals

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

Turnover represents the amount receivable for goods and services provided in the normal course of business, net of value added tax (VAT). Passenger income comprises amounts attributed to the company by the Rail Settlement Plan Limited 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.

h) Other operating income

Other operating income comprises:

- Revenue grant (in respect of passenger services operated by the company) as agreed between Stagecoach Group plc and the DfT in respect of the period;
- Property rental income which is recognised on an accruals basis;
- Other income derived from maintenance and other services that are recognised in the profit and loss account upon the completion of the service;

The accounting policy for the revenue grant is referred to in note k) below.

Under the contractual terms of its franchise agreements to operate rail services, East Midlands Trains Limited has revenue sharing arrangements with the DfT. As a result of these arrangements, the company may be liable to make payments to the DfT or receive amounts from the DfT based on calculations that involve comparison of actual revenue with the target revenue specified in the relevant franchise agreement. The company recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable (if any) are classified within other operating costs and revenue share amounts receivable (if any) are classified within other operating income.

i) Cashflow statement

East Midlands 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.

1. Accounting policies (continued)

j) Retirement benefit obligations

East Midlands Trains became the relevant Train Operating Company for the old Midland Mainline section at the start of the new franchise. This scheme was renamed the East Midlands Trains Limited section (EMT section) on 11 November 2007. All relevant EMT employees who were members of other Railway Pension Scheme (RPS) sections were transferred into the EMT section. East Midlands Trains Limited must make contributions during its franchise term in accordance with the contribution schedule agreed between East Midlands Trains and the Trustees.

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.

East Midlands 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.

k) Government grants

Revenue grants receivable in respect of the operation of rail franchises in the UK are credited 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 grant is receivable.

l) 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 fellow group undertakings.

m) 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.

n) Provision for claims

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

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

1. Accounting policies (continued)

o) Provision for liabilities

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

p) Investments

Investments are held at cost less any amounts written off for impairment.

q) 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 FRS20, 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 vested 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 estimates 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 Long Term Incentive Plan) is estimated by use of a simulation model.

During the vested 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 such liabilities recognised for the period ended 30 April 2011 (1 May 2010: £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 scheme operated by Stagecoach Group plc, in which some employees of East Midlands Trains Limited participate, are provided in the accounts of Stagecoach Group plc.

2. Turnover

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

Turnover, excluding value added tax (VAT) where applicable, is comprised of:

	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Passenger income	274,998	260,955
3rd party sales from train maintenance depots	15,206	13,250
Commission earned on ticket sales	5,775	5,393
Train catering sales	1,776	2,389
On Train WiFi sales	65	-
	297,820	**281,987**

3. Other operating income

Other income, excluding value added tax (VAT) where applicable, is comprised of:

	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Property letting, advertising & station access sales	7,859	6,105
Other sales	4,501	1,140
	12,360	**7,245**

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

4. Operating costs

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

		52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Staff costs (note 7d)		79,378	73,793
Depreciation (note 12)		3,977	1,221
Amortisation of intangible assets (note 11)		1,052	1,052
Impairment of tangible fixed assets (note 12)		-	420
Auditors' remuneration – for audit of the Company's accounts		40	37
Network Rail charges:	- Track access	47,949	45,818
	- Variable track access & capacity	21,345	19,560
	- Station/depot leases & long term charges	14,668	11,687
	- Other performance recoveries/charges	(10,206)	(16,887)
Operating lease rentals	- Passenger rolling stock	17,884	30,984
	- Other	567	601
Raw materials & consumables		17,791	12,825
3rd party train maintenance charges		26,395	21,841
Fuel costs		32,606	26,322
Franchise grant & secretary of state risk assumptions		30,621	3,504
Other operating costs		53,956	53,086
		338,023	**285,864**

Non-audit fees of £10,000 (2010: £4,500) included within other operating costs was payable to PricewaterhouseCoopers LLP during the period relating to Office of Rail Regulation and covenant work for the company.

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

5. Finance Income (net)

	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Interest payable and similar charges		
Bank charges	(87)	(87)
Inter-company bond charges	(179)	(70)
Inter-company commitment fees	(205)	(350)
Inter-company loan interest	(472)	-
	(943)	**(507)**
Interest receivable and similar income		
Bank interest	148	75
Other intra group financing item	27	34
FRS17 – finance income interest (note 22b)	1,661	169
	1,836	**278**
Total interest income/(charge)	**893**	**(229)**

Analysis of FRS17 - finance income interest:

Expected return on assets	8,446	6,592
Interest on pension scheme liabilities	(8,291)	(6,700)
Unwinding of franchise adjustment	1,506	277
	1,661	**169**

6. Dividends

The company did not pay any dividends during the period (2010: £Nil).

7. Information regarding directors and employees

a) Directors' emoluments

Emoluments of directors were:

	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Aggregate emoluments	**864**	**830**

The highest paid director in the year received £184,520 (2010: £231,449). The emoluments include a recharge from Stagecoach Group plc in respect of directors' services of £30,096 (2010: £31,362).

During the period 2 directors (2010: Nil) exercised share options in the ultimate parent company.

b) Pensions

The number of directors who were members of the East Midlands Trains pension scheme were as follows:

	52 Weeks ended 30 April 2011 Number	52 Weeks ended 1 May 2010 Number
Defined benefit schemes	**7**	**8**

The highest paid director accrued defined pension benefits of £35,449 (2010: £27,807) and lump sum benefits of £Nil (2009: £16,827).

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

By activity:	52 Weeks ended 30 April 2011 Number	52 Weeks ended 1 May 2010 Number
Operations/engineering	274	280
Traincrew, catering & support	980	949
Station services & retail outlets	465	472
Management & administration	320	321
	2,039	**2,022**

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

	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Wages and salaries	65,611	62,640
Social security costs	5,113	4,973
Defined benefit scheme pension costs (note 22b)	7,477	4,745
Defined contribution scheme pension costs (note 22b)	435	480
Equity settled share based payments	742	955
	79,378	**73,793**

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

8. Taxation on profit/(loss) on ordinary activities
a) (Credit)/Charge for the period

	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
Current tax:		
Corporation tax credit	(7,630)	(444)
Adjustments in respect of prior period	(19)	978
Total current tax	**(7,649)**	**534**
Deferred tax:		
Origination and reversal of timing differences	547	1,426
Adjustments in respect of prior periods	(39)	(830)
Total deferred taxation	**508**	**596**
Taxation on (loss)/profit on ordinary activities	**(7,141)**	**1,130**

b) Factors affecting the tax charge for the period

The tax assessed for the period is higher than (2010: lower than) the standard rate of corporation tax in the UK. (27.84%) The differences are explained below:	52 Weeks ended 30 April 2011 £000	52 Weeks ended 1 May 2010 £000
(Loss)/profit on ordinary activities before taxation	**(26,951)**	**3,139**
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 27.84% (2010:28%)	(7,504)	879
Effect of:		
Non tax deductible expenditure (Non taxable income) and other permanent differences	50	(66)
Treatment of inter-company transactions	281	(3)
Capital allowances more than depreciation	(346)	(1,010)
Pension cost relief in excess of pension cost charge	(279)	(486)
Share based payments (FRS20)	168	242
Adjustments to tax charge in respect of prior periods	(19)	978
Current tax charge for the period (note 8a)	**(7,649)**	**534**

c) Factors that may affect future tax charges

In the 2011 budget on 23 March 2011, the UK Government announced its intention to reduce the UK Corporate Income Tax rate to 23% by 1% per annum over a three-year period. At 30 April 2011 no change in the rate of tax was substantively enacted in law, but a 1% decrease in the rate to 25% has been enacted in the year ending 30 April 2012. Had this change of rate to 25% been substantively enacted as of the balance sheet date, the estimated impact on the balance sheet would be a reduction in the deferred tax asset of £75,000 from £1,948,000 to £1,873,000.

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

9. Operating leases and similar commitments

East Midlands Trains Limited has contracts with Network Rail for access to the railway (track) infrastructure, leasing of stations and depots. The company also leases rolling stock and ticket machines.

Annual commitments under the rolling stock operating leases expiring as follows are:

	2011 £000	2010 £000
Between one year and five years	25,748	25,635
	25,748	**25,635**

Annual commitments under other operating leases expiring as follows are:

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Between one year and five years	383	55,868	383	53,838
	383	**55,868**	**383**	**53,838**

10. Investments

The company holds the following investments:

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 was incorporated in the UK. The share was acquired on 30 March 2008.

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 was incorporated in the UK. The share was acquired on 10 March 2008.

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 company's passenger services. Rail Staff Travel Limited was incorporated in the UK. The share was acquired on 10 March 2008.

One £1 share of the issued share capital of NRES Limited. The principal activity of NRES Limited is to provide a national rail enquiry service. NRES Limited was incorporated in the UK. The share was acquired on 10 March 2008.

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

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

11. Intangible assets

	Customer database costs £000	Franchise transition costs £000	Revenue in advance intangible £000	Rail franchise pension £000	**Total intangible assets £000**
Cost					
At 1 May 2010 and 30 April 2011	105	941	2,559	4,177	**7,782**
Amortisation					
At 1 May 2010	34	315	854	1,395	**2,598**
Amortisation for the period	14	127	346	565	**1,052**
At 30 April 2011	48	442	1,200	1,960	**3,650**
Net book value at 1 May 2010	71	626	1,705	2,782	**5,184**
Net book value at 30 April 2011	**57**	**499**	**1,359**	**2,217**	**4,132**

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

12. Tangible fixed assets

	Land & buildings £000	Plant, fixtures & fittings £000	Assets in the course of construction £000	**Total fixed assets £000**
Cost				
At 1 May 2010	58	9,592	13,305	**22,955**
Additions	498	11,651	4,129	**16,278**
Disposals	-	(32)	(8,277)	**(8,309)**
At 30 April 2011	556	21,211	9,157	**30,924**
Depreciation				
At 1 May 2010	16	3,427	-	**3,443**
Charge for the period	86	3,891	-	**3,977**
Disposals	-	(12)	-	**(12)**
At 30 April 2011	102	7,306	-	**7,408**
Net book value at 1 May 2010	42	6,165	13,305	**19,512**
Net book value at 30 April 2011	**454**	**13,905**	**9,157**	**23,516**

13. Stocks

	2011 £000	2010 £000
Raw materials and consumables	**4,734**	4,672

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

14. Debtors

	2011 £000	2010 £000
Amounts falling due within one year:		
Trade debtors	16,250	11,892
Amounts owed by fellow group undertakings	863	2,117
Other debtors	855	610
Prepayments and accrued income	8,942	9,864
Value Added Tax debtor	3,025	2,200
Corporation Tax debtor	8,510	761
	38,445	**27,444**
Amounts falling due after more than one year:		
Prepayments and accrued income	5,703	6,829
	5,703	**6,829**

Amounts owed by fellow group undertakings within one year accrue no interest and are repayable on demand.

15. Deferred tax asset

	2011 £000	2010 £000
Accelerated capital allowances	(1,320)	(1,283)
Other timing differences	821	1,031
Deferred tax liability excluding that related to pension asset	**(499)**	**(252)**
Related to pension liability (note 22b)	2,447	2,281
Deferred tax asset	**1,948**	**2,029**

	2011 £000	2010 £000
Asset at start of period	2,029	2,227
Deferred tax charge in profit and loss account (note 8a)	(508)	(596)
Deferred tax recognised in the statement of total recognised gains and losses	427	398
Asset at the end of the period	**1,948**	**2,029**

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

16. Creditors

	2011 £000	2010 £000
Amounts falling due within one year:		
Trade creditors	21,371	14,715
Amounts due to fellow group undertakings	2,125	3,553
Other creditors	973	695
Other tax and social security	1,568	1,519
Accruals and deferred income	63,129	65,572
Capital grants	6	6
	89,172	**86,060**
Amounts falling due after more than one year:		
Amounts due to fellow group undertakings	35,472	-
Accruals and deferred income	5,393	2,621
Capital grants	13	19
	40,878	**2,640**

Amounts due to fellow group undertakings within one year accrue no interest and are repayable on demand.

Amounts due to fellow group undertakings greater than one year accrue no interest and are repayable on demand apart from £35,472,000 (2010: £Nil) which represents a loan from SRH Ltd and accrues interest at 3 month LIBOR plus 2.5%

17. Provisions for liabilities

	Deferred tax £000	Insurance claims £000	Redundancy £000	Total £000
At 1 May 2010	252	1,062	220	1,534
Charged to the profit and loss account	-	722	236	**958**
Utilised during the period	-	(415)	(220)	**(635)**
Deferred tax charge for the period	247	-	-	**247**
At 30 April 2011	**499**	**1,369**	**236**	**2,104**

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. The provision is expected to be utilised over the next 3-5 years.

A redundancy provision has been recognised in accordance with FRS 12 'Provisions, contingent liabilities and contingent assets' in respect of an ongoing re-organisation within the company. It is expected the provisions will be utilised within 12 months.

18. Pension liability, net of deferred tax

	2011 £000	2010 £000
Gross pension liability	(9,411)	(8,146)
Deferred tax asset	2,447	2,281
Pension liability, net of deferred tax	**(6,964)**	**(5,865)**

Deferred tax is not recorded on initial recognition of the pension liability on transition to FRS 17, "Retirement Benefits". Deferred tax is recognised only on the subsequent movements in the pension liability as shown above.

See note 22(b) for further details about accounting for pensions.

19. Called up share capital

	2011 £	2010 £
Authorised:		
300,000 (2010: 300,000) ordinary shares of £1 each	**300,000**	**300,000**
Allotted, called-up and fully paid:		
200,000 (2010: 200,000) ordinary shares of £1 each	**200,000**	**200,000**
	200,000	**200,000**

20. Reserves

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

	Contribution reserve £000	Share premium account £000	Profit and loss account £000
At 1 May 2010	1,219	1	3,101
Loss for the financial period	-	-	(19,809)
Other recognised gain and losses	-	-	(1,841)
Credit in respect of equity-settled share based payments	742	-	-
At 30 April 2011	**1,961**	**1**	**(18,549)**

Of the total profit and loss reserve, £Nil (2010: £3,101,000) represents non-distributable reserves.

21 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 £742,000 (2010: £955,000) have been recognised in the income statement during the year in relation to the above schemes.

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

Grant date	September 2008
Share price at grant / award date (£)	3.2750
Exercise price (£)	2.5178
Number of employees holding options / units at 30 April 2011	512
Shares under option / notional units at 30 April 2011	761,011
Vesting period (years)	3
Expected volatility	30%
Option / award life (years)	3.5
Expected life (years)	3
Risk free rate	4.43%
Expected dividends expressed as an average annual dividend yield	1.37%
Expectations of meeting performance criteria	100%
Fair value per option / notional unit at grant date (£)	1.14
Option pricing model	Black-Scholes

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

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

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

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

	Issue E	
	Number of employees	Ordinary shares under option
Beginning of year	563	836,182
Options lapsed	(51)	(75,171)
End of year	512	761,011

21 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	28 June 2007	30 June 2008	29 June 2009	10 December 2009	28 June 2010	Total
Outstanding at start of year (notional units)	33,855	95,160	754,153	1,671	Nil	884,839
Awards granted in year (notional units)	Nil	Nil	Nil	Nil	110,960	110,960
Exercised in year (notional units)	(33,855)	Nil	Nil	Nil	Nil	(38,855)
Lapsed in year (notional units)	Nil	Nil	(24,383)	Nil	Nil	(24,383)
Dividends in year (notional units)	Nil	999	7,586	17	1,164	9,766
Outstanding at end of year (notional units)	Nil	96,159	737,356	1,688	112,124	947,327
Vesting date	28 June 2010[1]	26 June 2011	29 June 2012	10 Dec 2012	28 June 2013	
Expected total value of award at time of grant (£)	55,006	229,021	907,984	2,549	215,329	
Closing share price on date of grant (£)	1.8075	2.6825	1.2700	1.6060	1.9020	

[1]The awards granted on 28 June 2007 would in the normal course of events have been vested on 28 June 2010. In light of the approach adopted for the 2008-09 bonus award to Directors and senior managers, which was awarded wholly in deferred shares under the EPP, the Remuneration Committee considered it appropriate to bring forward the vesting date of the 2007 EPP Award to permit vesting within the 2009/10 tax year for those affected individuals, subject to the requirement to retain a number of released EPP shares to the original due vesting date (28 June 2010). The closing share price on the vesting date of 8 March 2010 was £1.7820

22. Guarantees and other financial commitments

a) Capital commitments

	2011 £000	2010 £000
Contracted for but not provided for:		
Ticket Vending Machines	-	67
Car Park Equipment	-	1,059
On Train Equipment	-	1,800
Station Enhancements	152	-
	152	**2,926**

b) Pension scheme

On 11 November 2007 the Group commenced operating the new East Midlands Trains franchise for the period of 7 years and 4 months. The Group became sponsoring employer of members from three former sections of the RPS. Liabilities transferred in to the new East Midland Rail section of the RPS included those of former Midland Mainline section, circa 26% of the formal Central Train section and those members of the Maintrain section who transferred in. A liability of £4,177,000 in respect of pension commitments on acquisition of the franchise was recognised, including £802,000 in respect of a historic disputed pensionable pay settlement. A top up contribution of £3,375,000 was made immediately after the commencement of the franchise.

History of the East Midlands 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.

The triennial actuarial review of the Midland Mainline section of the RPS was carried out as at 31 December 2007 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	7.6
Pensioner	5.8
Pay inflation	4.2
Price inflation	3.2
State basic pension increases	4.2

22. 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 franchise East Midlands Trains made a payment of £3.3m to eliminate any deficits on the East Midlands Trains scheme.

East Midlands 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 calculations used for FRS 17 disclosures have been based on the most recent actuarial valuation, which has been verified by independent professional qualified actuaries to take account of the requirements of FRS 17.

The major assumptions used by the actuary were as follows:

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

Mortality assumptions used in the 31 December 2007 valuation:

	RPS
Current pensioner aged 65 – male	19.6
Current pensioner aged 65 – female	23.9
Future pensioners at age 65 – (aged 45 now) – male	21.9
Future pensioners at age 65 – (aged 45 now) – female	26.0

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

	2011 %	2011 £000	2010 %	2010 £000
Equities	8.3	137,456	8.3	122,721
Bonds	5.0	40,561	5.5	36,213
Cash	4.4	819	4.7	732
Property	7.5	26,016	7.5	23,228
Total		204,852		182,894

22. Guarantees and other financial commitments (continued)

b) Pension scheme (continued)

Analysis of amounts charged to the profit and loss account

	2011 £000	2010 £000
Charge to operating profits		
- Current service cost	7,477	4,945
- Curtailments	-	(200)
Total operating charge	7,477	4,745
Finance (income)/cost		
- Expected return on assets	(8,446)	(6,592)
- Interest on pension scheme liabilities	8,291	6,700
- Unwinding of franchise adjustments	(1,506)	(277)
Net return	(1,661)	(169)

BRASS contributions

BRASS contributions are additional funding contributions made by employees, which are matched by the employer. Due to the nature of the BRASS contributions, we have recorded the employer contributions of £435,000 (2010: £480,000) as defined contribution pension expenses.

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

	2011 £000	2011 %	2010 £000	2010 %
Actual return less expected return on pension scheme assets				
- Amount	10,113		33,368	
- Percentage of scheme assets		4.9%		18.2%
Experience gains and losses arising on the scheme liabilities				
- Amount	(7,464)		11,170	
- Percentage of the present value of the scheme liabilities		3.5%		5.8%
Changes in assumptions underlying the present value of the scheme liabilities	102		(68,087)	
Franchise adjustment	(5,019)		22,128	
Total actuarial (loss)/gain recognised in STRGL				
- Amount	(2,268)		(1,421)	
- Percentage of the present value of scheme liabilities		1.1%		0.7%

22. Guarantees and other financial commitments (continued)
b) Pension scheme (continued)

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

	2011 £000	2010 £000
Deficit in the scheme at the beginning of the period	(8,146)	(8,463)
Movement in the period:		
- Current service cost	(7,477)	(4,945)
- Curtailments	-	200
- Contributions	6,819	6,314
- Other finance income	155	169
- Actuarial gain/(loss)	2,751	(1,421)
- Unwinding of franchise adjustment	1,506	-
- Actuarial loss on franchise adjustment	(5,019)	-
(Deficit) in the scheme at the end of the period	**(9,411)**	**(8,146)**

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

	2011 £000	2010 £000
Total market value of assets	204,853	182,894
Present value of scheme liabilities		
- Gross Liabilities	(258,721)	(240,507)
- Adjustments for members' share of deficit (40%)	21,548	23,045
- Franchise adjustment	22,909	26,422
	(214,264)	(191,040)
Pension liability before tax	(9,411)	(8,146)
Related deferred tax asset	2,447	2,281
Net pension liability	**(6,964)**	**(5,865)**

Reconciliation of fair value of scheme assets

	30 April 2011 £000	1 May 2010 £000
At start of period	182,894	139,500
Expected return on plan assets	8,446	6,592
Actuarial gains	10,113	33,368
Employers contributions	6,819	6,314
Members contributions	2,466	2,823
Benefits paid	(5,885)	(5,703)
At end of period	**204,853**	**182,894**

22. Guarantees and other financial commitments (continued)
b) Pension scheme (continued)

Reconciliation of fair value of scheme liabilities

	30 April 2011 £000	1 May 2010 £000
At start of period	191,040	147,963
Current service cost	7,477	4,945
Curtailments	-	(200)
Interest cost	8,291	6,700
Unwinding of franchise adjustment	(1,506)	(277)
Members contributions	2,466	2,824
Actuarial (gains)/losses – experience gains	12,483	(33,298)
Actuarial (gains)/losses – change in assumptions	(102)	68,086
Benefits paid	(5,885)	(5,703)
At end of period	**214,264**	**191,040**

The directors believe that the company has no rights or obligations in respect of the RPS scheme following expiry of the franchise.

c) Contingent liabilities

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

23 Related party transactions

The company has taken advantage of the exemptions granted under FRS 8 by not disclosing details of sales and purchases with other members of the group headed by Stagecoach Group plc. Details of amounts owed to and from group undertakings are disclosed in aggregate in notes 14 and 16.

The fellow group undertaking National Transport Tokens Limited is a 99.9% owned subsidiary of Stagecoach Group plc. For the year ended 30 April 2011, National Transport Tokens Limited redeemed tokens presented by the company with a value of £60,000 (2010: £49,000).

24. Ultimate parent company

The immediate parent undertaking is Stagecoach Rail Holdings Limited, a company registered in Scotland (number SC 190288), which is a subsidiary of The Integrated Transport Company Limited, a company registered in Scotland (number SC 192154). The Integrated Transport Company Limited is a subsidiary of Stagecoach Transport Holdings plc, a company registered in Scotland (number SC 183051).

The company's ultimate parent undertaking and controlling party is Stagecoach Group plc, a company registered in Scotland (number SC 100764), 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