FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

Company Registered Number: 4113923

FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS 2013

Contents | **Pages**

DIRECTORS' REPORT
For the year ended 31 March 2013

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2013

Principal activities

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

Business review

The directors are satisfied with the performance of the company during the year Turnover was £241,472,000, which was a decrease of (15%) on the previous year (2012 £284,941,000) Operating profit was £16,606,000, which was a decrease of (75%) on the previous year (2012. £65,998,000) This decrease was due to a reduction in revenue grant following the extension of the franchise to 1 April 2015

Train service performance improved in comparison to the previous year, with the rail industry measure of performance - Public Performance Measurement (PPM) - at 90 6% for the full year to 31 March 2013 (2012 93 3%)

In the Spring National Passenger Survey (NPS) overall customer satisfaction was 85% (2012 88%) The survey highlighted improved satisfaction in a number of areas, most significant (greater than 5%) in the "station facilities & services" and "space for luggage" categories Disappointingly the area that showed significant decline (greater than 5%) was in the "punctuality of train service" category This is a reflection of the disruption affecting our services during the year

As part of the franchise extension we successfully negotiated for 10 new build Class 350 trains to be brought into service from December 2013 This project is progressing as planned and we have recruited additional drivers, conductors and managers to deliver the new services

Outlook

We will still maintain our focus on performance, aiming for a consistent PPM score of at least 90%, and value for money for our passengers

We expect to complete the introduction of the new trains in the coming year These electric trains will provide an 80% increase in customer capacity between Manchester and Scotland and will allow for a 30% increase in seat availability across the rest of the network

We will work closely with the DfT and our stakeholders on the route over the remaining life of the franchise to progress plans for the future of rail in the North of England and to further develop our Anglo-Scottish services

DIRECTORS' REPORT
For the year ended 31 March 2013

Financial matters

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

During the year the company paid interim dividends of £ 21,000,000 (2012 £31,000,000) and the directors have not declared a final dividend (2012 £nil)

Creditors

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions At 31 March 2013 the company had 45 days (2012 46 days) purchases outstanding

Directors

The directors who held office throughout the year and to date, unless otherwise stated, are as follows

Bruno Auger	
Vernon I Barker	
Clive Burrows	
Hugh P Clancy	
Elizabeth A Collins	
Nicholas C Donovan (Managing Director)	
David C Gausby	
Leo D Goodwin	
Alistair J Gordon	
Andrew J McNeil	
Malcolm R Rimmer	
Edith M Rodgers	(resigned 04.05 2012)
Paul N Staples	
Paul C Watson	

Employee involvement

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

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

Disabled persons

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

DIRECTORS' REPORT
For the year ended 31 March 2013

Principal risks and uncertainties

Legislation and regulation

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

Labour costs

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

Fuel costs

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

Terrorism and unprecedented events

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

Economy

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

DIRECTORS' REPORT
For the year ended 31 March 2013

Principal risks and uncertainties (continued)

Financial instruments

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

Going concern

The directors have considered the going concern assumption in conjunction with the current economic climate, the revised franchise terms and the company forecasts
One of the terms of the extended franchise is the ability for the Department for Transport (DfT) to terminate the franchise early, at 1 April 2014 However, as part of the current refranchising process the DfT have indicated that they may wish to further extend the franchise to February 2016 The company will work with the DfT during the coming year to facilitate their requirements

After making enquiries and considering these facts, the directors, therefore, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements

Audit information

Each of the directors at the date of approval of this report confirms that

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

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

Auditor

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

Approved and signed by the Board of Directors

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

David C Gausby
Director
29 July 2013

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

We have audited the financial statements of First/Keolis Transpennine Limited for the year ended 31 March 2013 which comprise the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net funds, the reconciliation of movements in shareholders' funds, the statement of total recognised gains and losses and the related notes 1 to 26 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the annual report to identify inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

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

30 July 2013

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2013

	Note	2013 £000	2012 £000
Turnover	2	241,472	284,941
Operating costs (net)	3	(224,866)	(218,943)
Operating profit		16,606	65,998
Net interest receivable	7	2,294	2,089
Profit on ordinary activities before taxation	8	18,900	68,087
Tax charge on profit on ordinary activities	9	(4,679)	(17,961)
Profit on ordinary activities after taxation	19	14,221	50,126

All activities relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2013

	Notes	2013 £000	2012 £000
Profit for the financial year		14,221	50,126
Actuarial gain/(loss) relating to pension scheme	22	200	(638)
Effect of decrease in tax rate on opening deferred tax balance attributable to actuarial gain/(loss)		11	34
UK deferred taxation attributable to actuarial gain/(loss)		(46)	153
Total recognised gains and losses for the year		14,386	49,675

BALANCE SHEET
At 31 March 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Intangible assets	11		635		1,259
Tangible assets	12		2,224		2,095
			2,859		3,354
Current assets					
Stock	13	157		141	
Debtors	14	25,777		27,873	
Cash at bank and in hand		70,145		89,538	
		96,079		117,552	
Creditors amounts falling due within one year	15	(67,073)		(82,112)	
Net current assets			29,006		35,440
Total assets less current liabilities			31,865		38,794
Provision for liabilities	16		(2,200)		(1,900)
Net assets excluding pension liability			29,665		36,894
Pension liability	22		(1,068)		(1,745)
Net assets including pension liability			28,597		35,149
Capital and reserves					
Called up share capital	18		250		250
Profit and loss account	19		28,347		34,899
Shareholder's funds			28,597		35,149

These financial statements for First/Keolis Transpennine Limited (Company Number 4113923) were approved by the Board of directors on 29 July 2013 and were signed on its behalf by

David C Gausby
Director

CASH FLOW STATEMENT

For the year ended 31 March 2013

	Note	2013 £000	2012 £000
Net cash inflow from operating activities	23(a)	14,781	62,887
Net cash inflow from returns on investments and servicing of finance	23(b)	494	589
Taxation paid		(12,348)	(14,347)
Capital expenditure and financial investment	23(c)	(1,320)	(810)
Equity dividends paid	10	(21,000)	(39,000)
Cash (outflow)/inflow before management of liquid resources and financing		(19,393)	9,319
Net cash inflow from financing		-	-
(Decrease)/increase in cash		(19,393)	9,319

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

For the year ended 31 March 2013

	Note	2013 £000	2012 £000
(Decrease)/increase in cash in the year and movement in net funds in the year		(19,393)	9,319
Net funds at 1 April 2012		89,538	80,219
Net funds at 31 March 2013	24	70,145	89,538

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

For the year ended 31 March 2013

	Notes	2013 £000	2012 £000
Profit for the financial year		14,221	50,126
FRS 20 share based payment credit		62	66
Other recognised gains and losses relating to the year (net)		165	(451)
Dividends paid and declared	10	(21,000)	(31,000)
Net (decrease)/ increase in shareholder's funds		(6,552)	18,741
Opening shareholder's funds as previously stated		35,149	16,408
Closing shareholder's funds		28,597	35,149

1 Principal accounting policies

The followıng accountıng polıcıes have been applıed consıstently throughout the current and precedıng year

(a) Basis of preparation

The financıal statements have been prepared under the hıstorıcal cost conventıon and ın accordance wıth applıcable law and Unıted Kıngdom accountıng standards

The financıal statements have been prepared on a goıng concern basıs. as descrıbed ın the going concern statement ın the Dırectors' Report on page 4

(b) Tangible fixed assets

Tangıble fixed assets are stated at cost, net of depreciation and any provısıon for ımpaırment

Depreciation ıs provıded to wrıte off the cost less resıdual value of tangıble fixed assets over theır estımated useful economıc lives as follows

Other plant and equıpment - 3 to 8 years straıght lıne

(c) Leases

All leases are operatıng leases and the rental charges are taken to the profit and loss account on a straıght-lıne basıs over the lıfe of the lease

(d) Taxation

The charge for taxatıon ıs based on the profit for the year and ıs provıded at amounts to be paıd usıng the tax rate and laws that have been enacted or substantively enacted by the balance sheet date The charge takes ınto account taxatıon deferred because of tımıng dıfferences between the treatment of certaın ıtems for taxatıon and accounting purposes

Provısıon ıs made for deferred tax on all tımıng dıfferences that have orıgınated but not reversed at the balance sheet date where transactıons or events that result in an oblıgatıon to pay more tax ın the future or a rıght to pay less tax ın the future have occurred at the balance sheet date Tımıng dıfferences are dıfferences between the company's taxable profits and ıts results as stated in the financıal statements that arıse from the ınclusıon of gaıns and losses ın tax assessments ın perıods dıfferent from those ın whıch they are recognısed ın the financıal statements Deferred tax ıs calculated at the rates at whıch ıt ıs estımated the tax wıll arıse Deferred tax assets are recognısed to the extent that ıt ıs regarded as more lıkely than not that they wıll be recovered. The deferred tax asset ıs not dıscounted to net present value

1 Principal accounting policies (continued)

(e) Turnover, including government grants and subsidies

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

(f) Intangible fixed assets

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

(g) Stocks

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

(h) Pension costs

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

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

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

1 Principal accounting policies (continued)

(h) Pension costs (continued)

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

(i) Share based payment

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

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

(j) Government grants

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

2 Turnover and profit on ordinary activities before taxation

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

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

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

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

Turnover can be analysed as follows

	2013 £000	2012 £000
Passenger services	178,614	166,599
Revenue grant	52,354	107,724
Other	10,504	10,618
	241,472	284,941

3 Operating costs (net)

	2013 £000	2013 £000
Station & track access and facilities	48,438	75,630
Staff costs	52,854	49,599
External charges	122,542	92,334
Depreciation (see note 12)	1,191	1,139
Amortisation of grants	(783)	(420)
Intangible asset amortisation (see note 11)	624	661
	224,866	218,943

4 Employee numbers and costs

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

	2013 No	2012 No
Operations	438	418
Customer services	532	521
Other	94	79
	1,064	1,018

The aggregate payroll costs of these persons were as follows

	2013 £000	2012 £000
Wages and salaries	44,011	41,799
Social security costs	3,543	3,200
Service cost (see note 22)	5,300	4,600
	52,854	49,599

Service costs include only those items included within operating costs
Items reported elsewhere have been excluded

5 Directors' remuneration

The remuneration of the directors during the year was as follows

	2013 £000	2012 £000
Emoluments	1,184	1,486
Contributions to money purchase schemes	128	84

Six directors were members of the company's defined benefit scheme (2012. seven)

The emoluments of the highest paid director amounted to.

	2013 £000	2012 £000
Emoluments	265	309
Money Purchase Schemes		
Accrued pension at year end	13	35
Accrued lump sum at end of year	9	20

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

6 Share based payments

Save as you earn (SAYE)

FirstGroup plc ("the Group"), the company's ultimate controlling party, operates an HMRC approved savings related share option scheme Grants were made in December 2008, December 2009, December 2010, December 2011 and December 2012 The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period Share save accounts are held with Lloyds TSB and Yorkshire Building Society The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months

6 Share based payments (continued)

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

	SAYE Dec 2008 Options No.	SAYE Dec 2009 Options No.	SAYE Dec 2010 Options No.	SAYE Dec 2011 Options No.	SAYE Dec 2012 Options No.
Outstanding at beginning of the year	1,805,810	2,336,168	2,669,280	2,907,764	-
Awarded during the year	-	-	-	-	2,986,775
Exercised during the year	-	(819)	-	(54)	(11)
Lapsed during the year	(1,805,810)	(242,694)	(384,479)	(377,042)	(29,664)
Outstanding at the end of the year	-	2,092,655	2,284,801	2,530,668	2,957,100
Exercisable at the end of the year	-	-	-	-	-
Weighted average exercise price (pence)	371 0	310 0	319 0	271 5	143 9
Weighted average share price at date of exercise (pence)	N/A	197 3	N/A	204 9	193 0

The inputs into the Black-Scholes model are as follows

	2013	2012
Weighted average share price (pence)	188 9	319 2
Weighted average exercise price (pence)	143 9	271 5
Expected volatility	35%	35%
Expected life	3 Years	3 Years
Risk-free rate of interest	0 4%	0 6%
Expected dividend yield	12 5%	7 0%

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

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

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

6 Share based payments (continued)

The Group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme The company has recognised a total credit of £62,000 (2012 £66,000) relating to equity-settled share-based payment transactions

7 Net interest receivable

	2013 £000	2012 £000
Income from short term deposits	494	589
Net return on pension scheme assets (note 22)	1,800	1,500
	2,294	2,089

Included within interest received is £67,829 (2012 £76,729) from related companies

8 Profit on ordinary activities before taxation

	2013 £000	2012 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation		
- owned assets	1,191	1,139
Amortisation of grants	(783)	(420)
Intangible asset amortisation	624	661
Rentals payable under operating leases		
- plant and machinery	62,758	49,969
- other operating leases	32,232	56,067

	2013 £000	2012 £000
Fees payable to the company's auditor for the audit of the company's annual financial statements	53	50
Total audit fees	53	50
Other services pursuant to legislation		
- other audit related – regulatory reporting	12	11
Total non-audit fees	12	11
Total	65	61

9 Tax on profit on ordinary activities

	2013 £000	2012 £000
Current taxation		
- UK corporation tax charge for the year	4,549	17,850
- Adjustment in respect of prior years	56	45
Total current taxation	4,605	17,895
Deferred taxation		
- Origination and reversal of timing differences	(10)	30
- Effect of decrease in tax rate on opening deferred tax balance	14	36
- Adjustment in respect of prior years	82	(44)
	86	22
Deferred tax on pension schemes		
- Origination and reversal of timing differences	(29)	9
- Effect of decrease in tax rate on opening deferred tax balance	17	35
	(12)	44
Total deferred taxation	74	66
Total tax charge on profit on ordinary activities	4,679	17,961

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 24% (2012 26%) The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation

	2013 %	2012 %
Standard rate of taxation	24 0	26 0
Factors affecting charge		
- Capital allowances less than depreciation	1 2	0 2
- Other timing differences	(1 1)	0 1
- Adjustments in respect of prior years	0 3	-
Current taxation rate for the year	24 4	26 3

During the period the UK government enacted legislation to reduce the main rate of UK corporation tax to 23% with effect from 1 April 2013 The impact of this rate reduction has reduced the deferred tax liability on UK timing differences

It was expected that further legislation would be included within Finance Bill 2013 to reduce the rate further to 22% for the financial year commencing 1 April 2014 However, government has subsequently announced that the rate will instead be reduced to 21% from 1 April 2014 and then again to 20% from 1 April 2015 None of these expected future rate reductions have been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements
The effective tax rate for the period to 31 March 2014 and 31 March 2015 is expected to reduce accordingly

10 Equity dividends

	2013 £000	2012 £000
Amounts recognised as distributions to equity holders in the year		
Interim dividend for the year ended 31 March 2013 of £84 (2012 £124) per ordinary share	21,000	31,000
	21,000	31,000

11 Intangible fixed assets

	Franchise Goodwill £000
Cost	
At 1 April 2012	5,462
Addition	-
At 31 March 2013	5,462
Amortisation	
At 1 April 2012	4,203
Charge for year	624
At 31 March 2013	4,827
Net book value	
At 31 March 2013	635
At 31 March 2012	1,259

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

12 Tangible fixed assets

	Plant and equipment £000
Cost	
At 1 April 2012	10,419
Additions	1,320
At 31 March 2013	11,739
Accumulated depreciation	
At 1 April 2012	8,324
Charge for year	1,191
At 31 March 2013	9,515
Net book value	
At 31 March 2013	2,224
At 31 March 2012	2,095

13 Stock

	2013 £000	2012 £000
Fuel	157	141

The directors consider there is no material difference between the balance sheet value of the stock and its replacement cost

14 Debtors

	2013 £000	2012 £000
Amounts due within one year		
Trade debtors	14,562	13,615
Amounts due from related parties (note 25)	4,597	4,024
Other debtors	2,069	3,895
Other prepayments and accrued income	4,224	5,928
Deferred tax asset (note 17)	325	411
	25,777	27,873

15 Creditors

	2013 £000	2012 £000
Amounts falling due within one year		
Trade creditors	23,939	19,715
Amounts owed to related parties (note 25)	1,733	47
Corporation tax	2,695	10,438
Other tax and social security	1,256	944
Other creditors	1,541	6,476
Accruals and deferred income	35,909	44,492
	67,073	82,112

16 Provision for liabilities

	Lease Obligations £000	Total £000
At 1 April 2012	1,900	1,900
Charged to profit and loss account	300	300
At 31 March 2013	2,200	2,200

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

17 Deferred taxation

	£000
Asset at 1 April 2012	411
Charged to the profit and loss account (note 9)	(86)
Asset at 31 March 2013	325

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

The deferred tax asset comprises

	2013 £000	2012 £000
Capital allowances less than depreciation	252	297
Other timing differences	73	114
Deferred tax asset	325	411

18 Called up share capital

	2013	2012
	£000	£000
Authorised		
500,000 ordinary shares of £1 each	500	500
Allotted, called up and fully paid		
250,001 ordinary shares of £1 each	250	250

19 Reserves

	Profit and loss account £000
At 1 April 2012	34,899
Profit for the year	14,221
Actuarial gain on pension (net)	165
Dividends (note 10)	(21,000)
FRS 20 share based payment credit (note 6)	62
At 31 March 2013	28,347

20 Commitments

Capital expenditure
The company has no capital commitments at 31 March 2013 (2012 £nil)

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

	2013		2012	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire				
Within one year	-	-	-	-
Within two to five years	480	94,471	506	91,545
More than five years	-	-	-	-
	480	94,471	506	91,545

21 Contingent liabilities

The company had no contingent liabilities at the reporting date (2012 same) FirstGroup plc and Keolis SA have jointly provided performance bonds of £19 2 million (2012: £19 2 million) and a letter of credit facility of £3 million (2012 £3 million), backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the Franchise obligations of First/Keolis Transpennine Limited

22 Pension scheme

Railways Pension Scheme - Transpennine Express Section

The company ıs a member of a defined benefit pensıon scheme, whıch ıs funded The scheme's assets are held and managed independently of the company's finances by ındependent ınvestment managers appoınted by the trustees of the scheme

The scheme ıs subject to trıennıal valuatıon by ındependent actuarıes, the last valuatıon beıng carrıed out at 31 December 2010 In the ındıcatıve results the assets of the scheme were valued at £31 1 mıllıon for the former First North Western sectıon and £49 7 mıllıon for the former Arrıva Traıns Northern sectıon The result of thıs valuatıon has been used for the purposes of these financial statements The fundıng level to date of the valuatıon was 97 1% for the former Fırst North Western sectıon and 96 2% for the former Arrıva Traıns Northern sectıon Total pensıon costs for 12 months to 31 March 2013 were £5 3 mıllion (2012· £4 6 mıllıon) The agreed contrıbutıon rate for next 12 months ıs 24 1% for the former Fırst North Western sectıon and 23 0% for the former Arrıva Traıns Northern sectıon

The maın financıal assumptıons for the combıned dıvısıons used at the balance sheet date were as follows

	2013 £000	2012 £000	2011 £000	2010 £000
Rate of ıncrease ın salarıes	3 70%	3 75%	4 2%	4 4%
Rate of ıncrease of pensıons ın payment	2 15%	1 75%	2 4%	3 4%
Dıscount rate	4 50%	4 65%	5 5%	5 6%
Inflatıon assumptıon - RPI	3 20%	2 75%	3 2%	3 4%
Inflatıon assumptıon - CPI	2 15%	1 75%	2 4%	-

The faır value of the scheme's assets, the present value of the lıabılıtıes and the expected rates of return as at 31 March 2012 were·

	2013 Expected rate of return	2012 Expected rate of return	2011 Expected rate of return	2010 Expected rate of return	2013 Value £000	2012 Value £000	2011 Value £000	2010 Value £000
Equıtıes	8 00%	8 40%	8 85%	9 05%	-	-	-	45,800
Bonds	3 75%	4 25%	5 2%	5 3%	2,200	1,900	1,800	3,700
Property	6 50%	6 40%	6 85%	7 6%	-	-	-	5,300
Prıvate Equıty	8 00%	8 40%	9 0%	-	8,900	7,900	6,800	-
Other	2 80%	3 10%	4 3%	5 4%	600	600	300	100
Infrastructure	8 00%	8 0%	8 0%	8 0%	3,600	3,200	3,200	3,300
Cash plus	8 00%	8 40%	8 85%	9 05%	74,800	65,300	60,400	5,800
					90,100	78,900	72,500	64,000

The long-term expected rate of return on cash ıs determıned by reference to bond rates at the balance sheet date The long-term expected rate on bonds ıs determıned by reference to UK long dated government and corporate bond yıelds at the balance sheet date The long-term expected rate of return on equıtıes ıs based on the rate of return on bonds with an allowance for out-performance

22 Pension scheme (continued)

The balance sheet position for the company

	2013	2012	2011	2010
	£000	£000	£000	£000
Total fair value of assets	90,100	78,900	72,500	64,000
Present value of scheme liabilities	(126,400)	(102,700)	(90,300)	(89,500)
Franchise adjustment	20,600	12,400	10,100	15,300
Deficit in the scheme	(15,700)	(11,400)	(7,700)	(10,200)
Employee share of deficit	14,500	9,500	7,100	10,200
Liability recognised in the balance sheet	(1,200)	(1,900)	(600)	-
Related deferred tax asset/(liability)	132	155	11	(298)
Net pension liability	(1,068)	(1 745)	(589)	(298)

Analysis of amount charged to operating profit

	2013	2012
	£000	£000
Current service costs	5,300	4,600
Total operating charge	5,300	4,600

Amounts charged to net finance income

	2013	2012
	£000	£000
Expected return on pension scheme assets	4,000	3,900
Interest on pension scheme liabilities	(2,200)	(2,400)
Net return (credit to finance income)	1,800	1,500

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

	2013	2012
	£000	£000
Actual return less expected return on pension scheme assets	(400)	(2,800)
Experience gains and losses arising on scheme liabilities	(7,000)	(938)
Actuarial gain due to franchise adjustment	7,600	3,100
Actuarial gain/(loss) recognised in STRGL	200	(638)

Movement in scheme deficit during the year

	2013	2012
	£000	£000
Deficit at 1 April 2012 and 1 April 2011	(1,900)	(600)
Movement in year		
Current service cost	(5,300)	(4,600)
Contributions	4,000	3,800
Extended franchise	-	(1,362)
Net finance income	1,800	1,500
Actuarial gain/(loss)	200	(638)
Deficit at 31 March 2013 and 31 March 2012	(1,200)	(1,900)

22 Pension scheme (continued)

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

	2013	2012
	£000	£000
At 1 April 2012 and 1 April 2011	102,700	90,300
Movement in year		
Current service cost	5,300	4,600
Brass contributions	(200)	(200)
Interest cost	2,800	3,000
Employee share of change in DBO	10,000	5,600
Actuarial loss/(gain)	7,000	800
Benefit payments	(1,200)	(1,400)
At 31 March 2013 and 31 March 2012	126,400	102,700

Movements in the fair value of scheme assets were as follows

	2013	2012
	£000	£000
At 1 April 2012 and 1 April 2011	78,900	72,500
Movement in year		
Expected return on assets	4,000	3,900
Employer contributions	4,000	3,800
Brass contributions	(200)	(200)
Employee contributions	2,600	2,400
Employee share of return on assets	2,400	700
Loss on assets	(400)	(2,800)
Benefits paid	(1,200)	(1,400)
At 31 March 2013 and 31 March 2012	90,100	78,900

Movements in the franchise adjustment were as follows

	2013	2012
	£000	£000
At 1 April 2012 and 1 April 2011	(20,700)	(16,800)
Cessation of primary franchise period	-	30,400
Commencement of secondary franchise period	-	(28,100)
Movement in year		
Interest on franchise adjustment	(600)	(600)
Employee share of change in BDO	(5,500)	(2,500)
Actuarial (loss)/gain	(7,600)	(3,100)
At 31 March 2013 and 31 March 2012	(34,400)	(20,700)

22 Pension scheme (continued)

History of experience gains and losses

	2013	2012	2011	2010	2009
Difference between the expected and actual return on scheme assets					
Amount (£000)	400	2,800	900	7,500	(12,800)
Percentage of scheme assets (%)	0 44 %	3 5%	1 2%	11 7%	(29 6%)
Experience losses and gains on scheme liabilities					
Amount (£000)	7,000	938	(6,100)	(15,400)	6,200
Percentage of the present value of scheme liabilities (%)	5 5%	0 1%	(6 8%)	(17 2%)	11%
Total actuarial gain/(loss) in the statement of total recognised gains and losses					
Amount (£000)	200	(638)	(600)	1,000	(500)
Percentage of the present value of scheme liabilities (%)	0 16%	(0 6%)	(0 7%)	1 1%	(1%)

The cumulative gain recognised in the Statement of Total Recognised Gains and Losses is £1,562,000 (2012 £1,362,000)

The actual return on scheme assets was £6,049,000 (2012 £1,840,000)

The company expects to contribute £4 6 million to its defined benefit schemes in the year ending 31 March 2014

23 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	2013 £000	2012 £000
Operating profit	16,606	65,998
Depreciation and other amounts written off tangible fixed assets	1,191	1,139
Amortisation of intangible asset	624	661
(Increase)/decrease in stock	(16)	36
Decrease/(increase) in debtors	2,010	(427)
(Decrease) in creditors	(6,934)	(5,320)
Movement in pension commitment	1,300	800
Net cash inflow from operating activities	14,781	62,887

(b) Returns on investments and servicing of finance	2013 £000	2012 £000
Interest received	494	589
Net cash inflow from returns on investments and servicing of finance	494	589

(c) Capital expenditure and financial investment	2013 £000	2012 £000
Purchase of tangible fixed assets	(1,320)	(810)
Net cash outflow from capital expenditure and financial investment	(1,320)	(810)

24 Analysis of net funds

	2013	2012
	£000	£000
Cash at bank and in hand	70,145	89,539

25 Related party transactions

The followıng companıes are deemed to be related partıes

FırstGroup plc, whıch ıs the ultımate controllıng party, ıs deemed to be a related party by vırtue of ıts ultımate shareholdıng ın and abılıty to control the company There were transactıons relatıng to affılıate service agreements and ınterest charged on loans ın the year to 31 March 2013 (2012 same)

Keolis (UK) Lımıted, a wholly owned subsıdıary of Keolıs SA, whıch ıs one of the controllıng partıes, ıs deemed to be a related party by vırtue of ıts ultımate shareholdıng and control of the company There were transactıons relatıng to affılıate servıce agreements and ınterest charged on loans ın the year to 31 March 2013 (2012 same)

Fırst/Keolıs Transpennine Holdıngs Lımıted ıs the ımmediate parent company and ıs, therefore, deemed to be a related party There were dıvıdend payments made in the year to 31 March 2013 (2012 same) and transactıons relatıng to the hıre of equıpment ın the year to 31 March 2013 (2012 nıl)

Fırst Capıtal Connect Lımıted ıs a wholly owed subsıdıary of FırstGroup plc and ıs, therefore, deemed to be a related party There were transactıons relatıng to cost recharges ın the year to 31 March 2013 (2012· same)

Fırst ScotRail Lımıted ıs a wholly owed subsıdıary of FırstGroup plc and ıs, therefore, deemed to be a related party There were transactıons relatıng to cost recharges ın the year to 31 March 2013 (2012 same)

First Greater Western Lımıted, whose ultımate parent company ıs FırstGroup plc and ıs, therefore, deemed to be a related party There were servıce charges ınvoıced ın the year to 31 March 2013 (2012 same) ın relatıon to the transactıons' processıng performed for the company

Hull Traıns Company Lımıted ıs a subsıdıary of FırstGroup plc and ıs, therefore, deemed to be a related party There were transactıons relatıng to cost recharges ın the year to 31 March 2013 (2012 same)

Fırst Raıl Support Lımıted is a wholly owed subsıdıary of FırstGroup plc and ıs, therefore, deemed to be a related party There were transactıons relatıng to the provısıon of raıl replacement buses ın the year to 31 March 2013 (2012 same)

Transportatıon Claims Limıted ıs a wholly owed subsıdıary of FırstGroup plc and ıs, therefore, deemed to be a related party There were transactıons relatıng to the provısıon of ınsurance claıms servıces ın the year to 31 March 2013 (2012 same)

25 Related party transactions (continued)

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

	2013 £'000	2012 £'000
FirstGroup plc		
Affiliate service agreements and loan interest	2,820	2,068
Keolis (UK) Limited		
Affiliate service agreements and loan interest	399	426
First Capital Connect Limited		
Recharged costs	-	(5)
First/Keolis Transpennine Holdings Limited		
Hire of equipment costs	(989)	-
First ScotRail Limited		
Recharged costs	164	172
First Greater Western Limited		
Transactions' processing and recharged costs	316	254
Hull Trains Company Limited		
Affiliate service agreements	(473)	(424)
First Rail Support Limited		
Rail replacement buses	2,066	2,385
Transportation Claims Limited		
Provision of insurance & claims services	147	61
Total	6,428	4,937

The following amounts, as included below, were outstanding to the company at the end of the year in relation to loan transactions

	2013 £'000	2012 £'000
FirstGroup plc	2,750	2,750
Keolis (UK) Limited	2,250	2,250
Total	5,000	5,000

25 Related party transactions (continued)

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

	2013 £'000	2012 £'000
FirstGroup plc	2,285	1,679
Keolis (UK) Limited	2,271	2,280
First/Keolis Transpennine Holdings limited	(989)	-
First Capital Connect Limited	-	3
First ScotRail Limited	(31)	-
First Greater Western	22	23
Hull Trains Company Limited	19	39
First Rail Support Limited	(615)	(47)
Transportation Claims Limited	(98)	-
Total	2,864	3,977

Dividends for the year of £21,000,000 (2012. £31,000,000) were paid to First/Keolis Transpennine Holdings Limited during the year No dividends were outstanding at the year end (2012 £nil)

26 Ultimate and immediate parent company and controlling party

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

The ultimate controlling party is FirstGroup plc The largest and smallest group in which these financial statements are consolidated is FirstGroup plc Copies of the financial statements of FirstGroup plc can be obtained from the London office of this company at Ground Floor, 50 Eastbourne Terrace, London, W2 6LG Copies of the financial statements of Keolis (UK) Limited can be obtained from 344 – 354 Greys Inn Road, London, WC1X 8BP