FIRST/KEOLIS TRANSPENNINE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

Company Registered
Number: 4113923

FIRST/KEOLIS TRANSPENNINE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

Contents

STRATEGIC REPORT
For the year ended 31 March 2016

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

The company operates intercity passenger railway services in the north of England and in Scotland, connecting Manchester and Manchester Airport with Leeds, York, Newcastle, Sheffield, Preston, Glasgow and Edinburgh. The company is a joint venture between FirstGroup Plc. (55%) and Keolis SA (45%)

Business review, future outlook, and going concern

The directors are satisfied with the performance of the company during the year. Turnover was £259,283,000, which was a decrease of (3.6%) on the previous year (2015: £269,012,000). Operating profit was £17,351,000, which was a decrease of (14.4%) on the previous year (2015: £20,267,000).

This trading year was operated under a one year direct award, which was let under the terms similar to new rail franchises. Profits were capped at 5% of bid revenue, after which 100% returned to the Department for Transport.
Challenging passenger revenue trading due to a significant number of major possessions, were met with initiatives and the great value media campaign.

Both of the Transpennine Express and Northern franchises were subject to an open bid process that had been in process during the previous twelve months. On 9 December 2015, the Department for Transport announced that FirstGroup Plc, via First Transpennine Express Limited, was awarded the Transpennine Express franchise from 1 April 2016.
As part of the refranchising award, there was a re-mapping of routes (2), stations (12) and staff (130) from the Transpennine franchise to the Northern franchise to be operated by Arriva Rail North Limited from 1 April 2016.

On 1 April 2016, the company's operations were transferred to First Transpennine Express Limited. This transfer was part of the pre-planned and contractual change to Rail franchising in the North of England. The process by which the transfer of all assets and liabilities, the communication of the transfer requirements, to all the respective trading partners, stakeholders and staff was undertaken successfully. Staff that transferred to the new Northern franchise were done so under the TUPE regulations without any issues arising.

The transfer of undertakings took place at 01.59 hours on 1 April 2016.
As result, the company ceased to operate as a Train Operating Company at that time and as a result these financial statements have been prepared on a basis other than going concern. No material adjustments arose as a result of ceasing to apply the going concern basis. All significant operating assets and liabilities of the company were contractually passed to First Transpennine Express Limited and Arriva Rail North Limited respectively.

The company continues to operate in order to close out its contractual obligations and deal with residual issues including the settlement of return condition obligations under lease arrangements with rolling stock companies and closing out remaining claims with Network Rail Limited.

STRATEGIC REPORT
For the year ended 31 March 2016

Key Performance Indicators

The key performance indicators are as follows:

Train operating performance was 2.74% below targeted levels in 2015/16 with our PPM MAA score standing at 87.75% (2015: 88.58%). The final PPM figure was impacted by an employee relations issue with drivers during the year. Performance in the first half of the year averaged 91.12% prior to this issue.

NRPS overall customer satisfaction for the year averaged of 83.5% (2015: 83.5%). The spring result fell to 82%, with the autumn result increasing to, 85%, a pleasing aspect of the autumn result, which was hampered by performance in the second half of the year.

The company measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2016 was 65% (2015: 69%). This was a disappointing result, but reflective of the change during refranchising.

STRATEGIC REPORT
For the year ended 31 March 2016

Principal risks and uncertainties

The company was subject to the following principal risks and uncertainties during the year. As discussed in the business review and future outlook section of the Strategic Report, the company ceased to operate as a Train Operating Company on 1 April 2016 and its principal risk going forward relates to the satisfactory transfer of the trade and assets to the new incumbent franchisees and realisation and settlement of the remaining balance sheet.

Rail franchise agreements

The company is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the rail franchise agreement. This would result in the company losing the right to continue operating the affected operations and consequently, the related revenues or cash flows. The company may also lose some or all of the amounts set aside as security for its performance bond and the season ticket bond. Compliance with franchise conditions are closely managed and monitored on a four-weekly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Information Technology

The company relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information (including credit card and personal data). Process failure, security breach or other operational difficulties may also lead to revenue loss. To mitigate this risk the company has extensive security controls in place which in conjunction with policy and procedures are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

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 our operations. To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc. regularly lobbies both government and transport bodies.

STRATEGIC REPORT
For the year ended 31 March 2016

Customer Service
The company's revenues are at risk if it does not continue to provide the level of service expected by customers. On-going engagement with customers and community stakeholders takes place across our network, through 'meet the manager' events, customer panels, consultations and local partnerships. The Board also monitors customer service KPIs to ensure that strict targets are being met.

Employee costs and relations
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. Our employees are key to service delivery and therefore it is important that good employee relations are maintained. Our working practices include building communication and engagement with trade unions and the wider workforce. This is supported by an Employee Director, who is voted for by the employees to represent them.

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 risks of rising fuel costs the company works with FirstGroup plc who regularly enter 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.

Severe weather and natural disasters
Across our network we are experiencing greater and more frequent adverse weather disruption impacting our service levels. We have severe weather action plans and procedures to manage the impact on our operations.

Terrorism
Terrorist acts and the public's concerns about potential attacks could adversely affect demand for our services. More particularly if we were to be perceived as not taking all reasonable precautions to guard against potential terrorist acts this could adversely affect our reputation with the public. The company has a Head of Security 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 our operations.

STRATEGIC REPORT
For the year ended 31 March 2016

Financial risk management objectives and policies

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 price, are hedged on a group basis, the company does not enter directly into any derivative financial instruments.

Approved by the Board of Directors
and signed on behalf of the board

David C Gausby
Director

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

DIRECTORS' REPORT
For the year ended 31 March 2016

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2016.

In accordance with section 414C (11) the directors have opted to disclose certain components in the Strategic Report which otherwise would be required to be disclosed in the Directors' Report under section 416.

Matters included in the Strategic Report

In accordance with s414C (11) of the Companies Act, included in the Strategic Report is information relating to the future developments and going concern of the business which would otherwise be required by Schedule 7 of the 'large and medium sized companies and groups (accounts and reports) regulations 2008' to be contained in a Directors' Report

Results and dividends

The results for the year are given in the profit and loss account on page 11.

During the year the company paid interim dividends of £20,000,000 (2015: £4,500,000). Subsequent to the year end, a final dividend of £20,000,000 was declared and paid.

Directors

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

Vernon I Barker	(resigned 17 April 2015)
Stephen Montgomery	(appointed 08 October 2015)
Clive Burrows	
Hugh P Clancy	
Elizabeth A Collins	
Nicholas C Donovan	(resigned 18 December 2015)
David C Gausby	
Leo D Goodwin	(resigned 31March 2016)
Rudolph F Haket	(resigned 7 December 2015)
Darren C Higgins	(resigned 31March 2016)
David Lowrie	
Andrew J McNeil	(resigned 31March 2016)
Malcolm R Rimmer	
Paul N Staples	(resigned 31March 2016)
Paul C Watson	(resigned 31March 2016)

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.

DIRECTORS' REPORT
For the year ended 31 March 2016

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.

Approval of reduced disclosures

The Company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12. The Company's shareholder has been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received. The Company also intends to take advantage of these exemptions in the financial statements to be issued in the following year.

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 is 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 an 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 by the Board of Directors
And signed on behalf of the board

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

David C Gausby
Director

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 2016 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity, and the related notes 1 to 25. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland."

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

Opinion on 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 2016 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)

Emphasis of matter – Financial statements prepared other than on a going concern basis
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial 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.

Chris Powell

Christopher Powell FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
14 July 2016

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2016

	Note	2016 £000	Restated 2015 £000
Turnover	2	259,283	269,012
Operating Costs	3	(241,932)	(248,745)
Operating profit		17,351	20,267
Net interest receivable	7	309	319
Profit on ordinary activities before taxation	8	17,660	20,586
Tax charge on profit on ordinary activities	9	(3,769)	(4,262)
Profit for the financial year	19	13,891	16,324

All activities relate to discontinued operations.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Notes	2016 £000	Restated 2015 £000
Profit for the financial year		13,891	16,324
Actuarial gain /(loss) due to scheme assets and liabilities		19,529	(10,457)
Actuarial gain /(loss) due to rail franchise adjustment		(19,529)	12,800
Deferred taxation attributable to actuarial gain		-	(468)
Other compressive income		-	1,875
Total Comprehensive Income for the year		13,891	18,199

BALANCE SHEET
At 31 March 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Intangible assets	11		-		-
Tangible assets	12		1,593		1,904
			1,593		1,904
Current assets					
Stock	13	92		113	
Debtors	14	28,836		29,034	
Cash at bank and in hand		64,382		62,600	
		93,310		91,747	
Creditors: amounts falling due within one year	15	(67,618)		(59,596)	
Net current assets			25,692		32,151
Total assets less current liabilities			27,285		34,055
Provision for liabilities	16		(3,004)		(3,754)
Net assets excluding pension liability			24,281		30,301
Pension liability	22		-		-
Net assets including pension liability			24,281		30,301
Capital and reserves					
Called up share capital	18		250		250
Profit and loss account	19		24,031		30,051
Shareholder's funds			24,281		30,301

The accompanying notes are an integral part of this balance sheet.

These financial statements for First/Keolis Transpennine Limited (Company Number: 4113923) were approved by the Board of Directors on 19/7/2016 and were signed on its behalf by:

David C Gausby
Director

STATEMENT OF CHANGES IN EQUITY
At 31 March 2016

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2014	**250**	**16,297**	**16,547**
Total comprehensive income for the financial year	-	18,199	18,199
Dividend payments	-	(4,500)	(4,500)
Share-based payments	-	55	55
Balance at 31 March 2015	**250**	**30,051**	**30,301**
Total comprehensive income for the financial year	-	13,891	13,891
Dividend payments	-	(20,000)	(20,000)
Share-based payments	-	89	89
Balance at 31 March 2016	**250**	**24,031**	**24,281**

1 Principal accounting policies

The following accounting policies have been applied consistently throughout the current and preceding year:

(a) Basis of preparation and going concern

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior period financial statements were restated for material adjustments on adoption of FRS 102 in the current period.

The financial statements have been prepared on a basis other than going concern as described in the Strategic Report on page 1.

The functional currency of First Keolis Transpennine Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to share-based payments, presentation of a cash-flow statement, financial instruments, and key management compensation.

(b) Cash flow statement

The company is ultimately controlled by FirstGroup plc, a company registered in Scotland. Accordingly, the company has taken advantage of the exemption offered by Financial Reporting Standard 102, enabling it not to produce a cash flow statement as the parent company has included a consolidated cash flow statement within its group financial statements which are publicly available.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost less residual value of tangible fixed assets over their estimated useful economic lives as follows:

Other plant and equipment	-	3 to 8 years straight line

(d) Leases

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

1 Principal accounting policies (continued)

(e) Taxation

The charge for taxation is based on the profit for the year and is provided at amounts to be paid using the tax rate and laws that have been enacted or substantively enacted by the balance sheet date. The charge takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision is made for deferred tax on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

(f) 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.

(g) 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.

(h) 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.

1 Principal accounting policies (continued)

(i) Employee benefits

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 cost on the net pension scheme liability is shown in net interest receivable. 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.

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 (g) 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.

(j) 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.

(k) 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.

(l) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(m) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

(m) Financial assets and liabilities (continued)

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(i) Equity instruments
Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(ii) Fair value measurement
The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

(n) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimates that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Performance claims

The company is subject to various performance mechanisms relating to operating performance and track possessions by Network Rail which result in compensation claimed by the company to cover incremental costs incurred and lost passenger revenue, and amounts payable by the company for adverse performance.

Judgements are involved in estimating the total future settlement amount due to the varying levels of estimation of costs and performance impacts by the specific factors. Management has established practices in place to monitor and capture relevant events in order to make assessments of such items.

Dilapidation provisions

Judgements are involved in estimating the future obligations for restoration works to be completed on leased assets. Management has established practices in place to monitor and capture condition of the assets and events which may give rise to increased obligations. Management utilises external consultants where necessary to determine the expected costs to be 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.

Turnover can be analysed as follows:

	2016 £000	2015 £000
Passenger services	227,712	213,482
Revenue grant	20,351	43,910
Other	11,220	11,620
	259,283	269,012

3 Operating costs (net)

	2016 £000	2015 £000
Station & track access and facilities	40,929	41,193
Staff costs	64,205	67,407
External charges	136,869	140,233
Depreciation (see note 12)	1,922	1,171
Amortisation of grants	(1,993)	(1,259)
	241,932	248,745

4 Employee numbers and costs

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

	2016 No	2015 No
Operations	512	500
Customer services	588	591
Other	112	110
	1,212	1,201

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	51,982	56,525
Social security costs	4,558	4,430
Pension costs (see note 22)	7,665	6,452
	64,205	67,407

Pension 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:

	2016 £000	2015 £000
Emoluments	1,777	973
Contributions to defined benefit schemes	74	73

Six directors were members of the company's defined benefit scheme (2015: six).

5 Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2016 £000	2015 £000
Emoluments	641	303
Defined benefit schemes:		
Accrued pension at year end	23	20
Accrued lump sum at end of year	16	14

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 2010, December 2011, December 2012, December 2013 and December 2014. 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.

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 expense of £89,000 (2015: £55,000) relating to equity-settled share-based payment transactions.

7 Net interest receivable

	2016 £000	Restated 2015 £000
Income from short term deposits	309	319
Net interest on defined benefit liability (note 22)	-	-
	309	319

Included within interest received is £nil (2015: £nil) from related companies.

8 Profit on ordinary activities before taxation

	2016 £000	2015 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation		
- owned assets	1,922	1,171
Amortisation of grants	(1,993)	(1,259)
Intangible asset amortisation	-	-
Rentals payable under operating leases		
- plant and machinery	69,941	68,532
- other operating leases	16,146	17,345

	2016 £000	2015 £000
Fees payable to the company's auditor for the audit of the company's annual financial statements	59	61
Total audit fees	59	61
Other services pursuant to legislation:		
- other audit related – regulatory reporting	5	4
Total non-audit fees	5	4
Total	64	65

9 Tax on profit on ordinary activities

	2016 £000	Restated 2015 £000
Current taxation		
- UK corporation tax charge for the year	3,467	4,344
- Adjustment in respect of prior years	259	587
Total current taxation	3,726	4,931
Deferred taxation		
- Origination and reversal of timing differences	70	196
- Effect of decrease in tax rate on opening deferred tax balance	19	-
- Adjustment in respect of prior years	(46)	(477)
	43	(281)
Deferred tax on pension schemes		
- Origination and reversal of timing differences	-	(388)
	-	(388)
Total deferred taxation	43	(669)
Total tax charge on profit on ordinary activities	3,769	4,262

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 20% (2015: 21%). 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:

	2016 £'000	Restated 2015 £'000
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20% (2015: 21%)	3,532	4,323
Expenses not deductible for tax purposes	12	(181)
Prior year adjustments	213	110
Effect of decrease in tax rate on opening deferred tax balance	19	-
Effect of decrease in tax rate on origination and reversal of timing differences	(7)	10
Total tax charge on profit on ordinary activities	3,769	4,262

The Finance (No.2) Act 2015 introduced a reduction in the main rate of corporation tax from 20% to 19% from April 2017 and from 19% to 18% from April 2020. These reductions were substantively enacted on 24 October 2015 and therefore the deferred tax provision at the balance sheet date has been calculated using these rates.

9 Tax on profit on ordinary activities (continued)

The UK Budget on 16 March 2015 announced proposals to reduce the main rate of corporation tax to 17% from 1 April 2020. The rate was not substantively enacted at the balance sheet date and, as such, this rate has not been used to measure the deferred tax in these financial statements.

10 Equity dividends

	2016 £000	2015 £000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 March 2016 of £80 (2015: £18) per ordinary share	20,000	4,500
	20,000	4,500

11 Intangible fixed assets

	Franchise Goodwill £000
Cost	
At 1 April 2015	5,462
Addition	-
At 31 March 2016	5,462
Amortisation	
At 1 April 2015	5,462
Charge for year	-
At 31 March 2016	5,462
Net book value	
At 31 March 2016	-
At 31 March 2015	-

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 2015	13,548
Additions	1,611
At 31 March 2016	15,159
Accumulated depreciation	
At 1 April 2015	11,644
Charge for year	1,922
At 31 March 2016	13,566
Net book value	
At 31 March 2016	1,593
At 31 March 2015	1,904

13 Stock

	2016 £000	2015 £000
Fuel	92	113

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

14 Debtors

	2016 £000	2015 £000
Amounts due within one year		
Trade debtors (including amounts recoverable from Network Rail)	23,749	21,256
Amounts owed by group undertakings	69	53
Other debtors (primarily VAT)	4,560	4,375
Other prepayments and accrued income	355	3,204
Deferred tax asset (note 17)	103	146
	28,836	29,034

15 Creditors

	2016 £000	2015 £000
Amounts falling due within one year		
Trade creditors	10,505	8,173
Amounts owed to group undertakings	8,075	3,159
Corporation tax	2,465	2,288
Other tax and social security	1,551	2,428
Other creditors	2,721	1,804
Accruals and deferred income	42,301	41,744
	67,618	59,596

16 Provision for liabilities

	Lease Obligations £000	Total £000
At 1 April 2015	3,754	3,754
Utilised in the period	(750)	(750)
At 31 March 2016	3,004	3,004

At 31 March 2016, the dilapidation provisions were £3.004 million. This was made up of the liabilities for 3 train fleets, class 170, class 185 and class 350, as well as liabilities at office locations around the network. Remediation work was carried out in the period to remedy any works required to the stations operated by the company and were validated through audits performed by Network Rail.

Condition audits of the trains were undertaken by the respective leasing companies. The reports from these audits were used to establish the provision and estimates were also used where final reports were pending.
Similarly, landlord audits were undertaken to establish return condition values at each of our office accommodations.

The asset transfer register identified which dilapidation liabilities were to be transferred to either First Transpennine Express Limited or Arriva Rail North Limited and which ones were to be retained by the company.

17 Deferred taxation

	£000
Asset at 1 April 2015	146
Charged to Profit and Loss Account	(43)
Asset at 31 March 2016	103

The closing balance is included within the debtors (see note 14) and is expected to be recovered within 12 months.

The deferred tax (liability)/asset comprises:

	2016 £000	2015 £000
Capital allowances less than depreciation	14	(261)
Other timing differences	89	407
Deferred tax asset	103	146

18 Called up share capital

	2016 £000	2015 £000
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 2015	30,051
Profit for the financial year	13,891
Dividends (note 10)	(20,000)
Share based payment credit (note 6)	89
At 31 March 2016	24,031

20 Commitments

Capital expenditure
The company has no capital commitments at 31 March 2016 (2015: £nil).

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

	2016		2015	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	-	-	598	89,955
Between one and two years	-	-	-	-
	-	-	598	89,955

21 Contingent liabilities

The company had no contingent liabilities at the reporting date (2015: same).
FirstGroup plc. and Keolis SA have jointly provided performance bonds of £8 million (2015: £19.2 million) and a letter of credit facility of £3 million (2015: £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

Defined contribution schemes

The company operations defined contribution retirement benefit schemes for all qualifying employees. The total expense charge to the profit and loss in the period ended 31 March 2016 was £0.2m.

Defined benefit schemes

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme. The valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle in respect of the costs used in these financial statements.

The actuarial valuation was updated for 31 March 2016; at this date the market value of the scheme's assets totalled £132.4m, £54.7 million for the former First North Western section and £77.7 million for the former Arriva Trains Northern section.

The actuarial value of these assets was sufficient to cover 74% (2015: 65%) of the benefits, which had accrued to the scheme's members.

22 Pension scheme (continued)

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 9.36% (2015: 9.36%) for the former First North Western' employees and 14.04% (2015: 14.04%) for the employer. For the former First Arriva Trains Northern' employees, the current contribution rate is 9.36% (2015: 9.36%) and 10.12% (2015: 10.12%) for the employer.

Under the terms of the Railways Pension Scheme (RPS) the employer (60%) and the employees (40%) share any fund deficit.

The result of this valuation has been used for the purposes of these financial statements. The funding level to date of the valuation was 97.4% for the former First North Western section and 98.6% for the former Arriva Trains Northern section. Total pension costs for 12 months to 31 March 2016 were £7.7 million (2015: £6.5 million).

Financial assumptions

The main financial assumptions used in this update were as follows:

	2016 £000	2015 £000
Rate of increase in salaries	3.10%	3.45%
Rate of increase of pensions in payment	1.75%	1.85%
Discount rate	3.70%	3.50%
Inflation assumption - RPI	2.85%	2.95%
Inflation assumption - CPI	1.75%	1.85%

Mortality assumptions

The assumptions made for current mortality reflect broadly the current experience. This takes into account size of pension and geographic location. An allowance is made for future improvements, based on information currently available on mortality trends.

	2016 Value £000	2015 Value £000
Equities	33,700	-
Bonds	37,500	2,774
Property	12,500	-
Private Equity	-	12,020
Other	13,260	822
Infrastructure	-	4,109
Cash plus	35,500	97,287
	132,460	117,012

22 Pension scheme (continued)

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	2016 £000	Restated 2015 £000
Current service costs	7,665	6,452
Impact of franchise adjustment on operating cost	(2,931)	-
Total operating charge	4,734	6,452
Interest cost	1,378	1,114
Impact of franchise adjustment on interest cost	(1,378)	(1,114)
	-	-
	4,734	6,452

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actuarial gain on scheme assets was £6.891m (2015: £4.600m).

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit pension scheme is as follows:

The balance sheet position for the company:

	2016 £000	2015 £000
Fair value of schemes' assets	132,460	117,012
Present value of defined benefit obligations	(179,919)	(181,037)
Deficit in the scheme	(47,459)	(64,025)
Franchise adjustment (60% employer's share)	28,475	38,415
Adjustment from employee share of RPS deficits (40%)	18,984	25,610
Liability recognised in the balance sheet	-	-
Related deferred tax asset/(liability)	-	-
Net pension liability	-	-

22 Pension scheme (continued)

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

	2016 £000	2015 £000
At the start of the year:	181,037	140,762
Current service cost	7,665	6,452
Past service gain	(3,180)	-
Brass contributions	(200)	(169)
Interest cost	3,882	3,815
Employee share of change in DBO	5,645	16,770
Actuarial gain	(12,656)	15,057
Benefit payments	(2,274)	(1,650)
At the end of the year	179,919	181,037

Movements in the fair value of scheme assets were as follows:

	2016 £000	Restated 2015 £000
At the start of the year:	117,012	99,197
Interest Income on assets	2,500	2,700
Employer contributions	4,700	4,509
Brass contributions	(200)	(169)
Employee contributions	3,640	3,000
Employee share of return on assets	3,748	4,850
Gain/(loss) on assets	3,130	4,575
Benefits paid	(2,070)	(1,650)
At the end of the year	132,460	117,012

Movements in the franchise adjustment were as follows:

	2016 £000	2015 £000
At the start of the year:	(64,025)	(40,898)
Interest on franchise adjustment	(1,378)	(1,080)
Employee share of change in BDO	(1,584)	(9,251)
Actuarial gain/ (loss) on franchise adjustment	19,528	(12,796)
At the end of the year	(47,459)	(64,025)

22 Pension scheme (continued)

Had the company accounted for pensions as if the respective franchise had an indefinite duration, the impact on the financial statements would have been as follows:

Balance sheet	2016	2015
	£000	£000
Pension deficit	(28,475)	(38,415)
Deferred taxation	5,695	7.683
Impact on net assets	(22,780)	(30.732)
Income statement		
Unwinding of discount on franchise adjustment	(1,378)	(1,080)
Deferred taxation	276	227
Impact on profit for the year	(1,102)	(853)
Statement of other comprehensive income		
Actuarial gain/(loss) on franchise adjustment	19,528	(12,796)
Deferred on actuarial gain/(loss)	(3,906)	2,687
Impact on recognised income and expense	15,622	(10,109)

23 Related party transactions

The following companies are deemed to be related parties:

FirstGroup plc. which is the ultimate controlling party, is deemed to be a related party by virtue of its ultimate shareholding in and ability to control the company. There were transactions relating to affiliate service agreements and interest charged on loans in the year to 31 March 2016 (2015: same).

Keolis (UK) Limited, a wholly owned subsidiary of Keolis SA, which is one of the controlling parties, is deemed to be a related party by virtue of its ultimate shareholding and control of the company. There were transactions relating to affiliate service agreements and interest charged on loans in the year to 31 March 2016 (2015: same).

First/Keolis Transpennine Holdings Limited is the immediate parent company and is, therefore, deemed to be a related party. There were dividend payments made in the year to 31 March 2016 (2015: same) and transactions relating to the hire of equipment in the year to 31 March 2016 (2015: same).

First Capital Connect Limited is a wholly owned subsidiary of FirstGroup plc. and is, therefore, deemed to be a related party. There were transactions relating to cost recharges in the year to 31 March 2016 (2015: same).

23 Related party transactions (continued)

First ScotRail Limited is a wholly owned subsidiary of FirstGroup plc. and is, therefore, deemed to be a related party. There were transactions relating to cost recharges in the year to 31 March 2016 (2015: same).

First Greater Western Limited, whose ultimate parent company is FirstGroup plc. and is, therefore, deemed to be a related party. There were service charges invoiced in the year to 31 March 2016 (2015: same) in relation to the transactions' processing performed for the company.

Hull Trains Company Limited is a subsidiary of FirstGroup plc. and is, therefore, deemed to be a related party. There were transactions relating to cost recharges in the year to 31 March 2016 (2015: same).

First Rail Support Limited is a wholly owned subsidiary of FirstGroup plc. and is, therefore, deemed to be a related party. There were transactions relating to the provision of rail replacement buses in the year to 31 March 2016 (2015: same).

Transportation Claims Limited is a wholly owned subsidiary of FirstGroup plc. and is, therefore, deemed to be a related party. There were transactions relating to the provision of insurance claims services in the year to 31 March 2016 (2015: same).

23 Related party transactions (continued)

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

	2016 £'000	2015 £'000
FirstGroup plc		
Affiliate service agreements	9,357	8,353
Keolis (UK) Limited		
Affiliate service agreements	445	450
First Capital Connect Limited		
Recharged costs	-	35
First/Keolis Transpennine Holdings Limited		
Hire of equipment costs	848*	848
First ScotRail Limited		
Recharged costs	13	198
First Greater Western Limited		
Transactions' processing and recharged costs	648	662
Hull Trains Company Limited		
Affiliate service agreements	(478)	(505)
First Rail Support Limited		
Rail replacement buses	8,654	3,895
Transportation Claims Limited		
Provision of insurance & claims services	24	(179)
Total	19,511	13,757

*The purchase of fixed assets (2015: £1,365,088) was not charged to the profit and loss

23 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:

	2016 £'000	2015 £'000
FirstGroup plc	(6,232)	(2,245)
Keolis (UK) Limited	-	-
First/Keolis Transpennine Holdings limited	(1,365)	-
First ScotRail Limited	-	(5)
First Greater Western	(62)	(220)
Hull Trains Company Limited	69	53
First Rail Support Limited	(352)	(649)
Transportation Claims Limited	(64)	(40)
Total	(8,006)	(3,106)

Dividends for the year of £20,000,000 (2015: £4,500,000) were paid to First/Keolis Transpennine Holdings Limited during the year. Subsequent to the year end, a final dividend of £20,000,000 was declared and paid.

24 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 Evergreen Building North, 160 Euston Road, London, NW1 2DX.

25 Transition to FRS 102

Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2015. As a consequence of adopting FRS102, the accounting policy for deferred benefit pension arrangements has changed. Under previous UK GAAP, the profit and loss account disclosed a separate interest cost and expected return on assets. FRS102 requires a net interest cost to be disclosed. This results in a reduction to the net interest previously disclosed of £1.791m. Consequently, the actuarial gain due to pension scheme assets disclosed in other comprehensive income has increased by the same amount. As a result of this change to FRS102 there is no net change to equity. Details of exemptions taken can be found in note 1.