FIRST/KEOLIS TRANSPENNINE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

Company Registered Number: 4113923

FIRST/KEOLIS TRANSPENNINE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

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STRATEGIC REPORT
For the year ended 31 March 2014

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 £266,205,000, which was an increase of (10.2%) on the previous year (2013: £241,472,000). Operating profit was £20,893,000, which was an increase of (25.8%) on the previous year (2013: £16,606,000).

As part of the current, extended, franchise term we committed to introduce 10 new Class 350 electric trains. We can confirm that we were successful and all 10 trains were accepted to passenger service by 27 March 2014. The new trains were fundamental to our new May 2014 timetable delivery. The new timetable has delivered additional capacity on our Anglo-Scottish services and provided an additional service, now 5 trains per hour, across our North Transpennine route.

We have continued our strong communication and engagement programme with our stakeholders and employees to keep them updated on the improvements to our passenger rail services and future proposals for the franchise. In addition to this we have worked closely with Network Rail, where we can, to help them reduce the impact of infrastructure issues and disruption to our customers.

The DfT has announced its intention to enter into a Direct Award with the company, subject to a satisfactory negotiation, up to 7 February 2016. The DfT issued a Request for Proposal in July 2014 with a response due in September 2014. We are currently working with the Department for Transport (DfT) to secure the Direct Award of the Transpennine Express franchise. The purpose of this is to fit in with the DfT refranchising programme which sees the new Transpennine Express franchise commencing in February 2016. The Direct Award will secure continuity of rail services for our customers until the new franchise starts.

The directors have considered the current DfT notified franchise end date of 31 March 2015, the extended Rail Franchising Programme announced by the DfT, and the financial position of the company and its ability to settle its obligations over the foreseeable future. After making enquiries and considering the key facts, the directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the signing date of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

STRATEGIC REPORT
For the year ended 31 March 2014

Key Performance Indicators

Train operating performance was 1.1% under targeted levels in 2013/14 with our PPM MAA score standing at 90.4% (2013: 91.7%). The first quarter of the year saw promising results, with both Network Rail and TOC on self both beating their targets. In the second quarter, a significant dip in performance, primarily as a result of drivers withdrawing from the rest day working agreement, affected performance for three months. PPM in the third quarter was also affected by driver resourcing issues, the effects of severe weather and infrastructure failures in December. The final quarter of the year saw some improvement in PPM, with results in the high 90s over several days.

NRPS overall customer satisfaction for the year stabilised at 85% (2013 85%). Notwithstanding individual unplanned events arising from adverse weather and infrastructure failure; customer perception is increasingly impacted as a result of constrained capacity and increasing demand, with particular impact on commuting passengers on our high density routes. This is highlighted by the increasing disparity between customer satisfaction with the station, which remains robust, and on the train; evidenced by specific issues with seat availability, luggage space, and perceived value for money. The progressive introduction of the new Class 350 fleet from December 2013 ahead of the May 2014 timetable change has provided welcome respite across many of the congested services as a further 90,000 seats have been introduced across the network. In parallel, focus has been applied to improve the serviceability of toilets across the fleet; and further initiatives are being introduced to improve the quality and content of customer information, on-board cleanliness, and visibility of staff as part of a transformational objective to improve NRPS overall satisfaction.

First/Keolis Transpennine measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2014 was 67% (2013: 70%). A 44 point operating plan has been introduced for the forthcoming year to support and develop the overall engagement levels.

Principal risks and uncertainties

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. As discussed in the business review and future outlook section of the Strategic Report, First/Keolis Transpennine Ltd are in negotiations with the DfT to run the Transpennine Express franchise for an additional 10 months until February 2016. In June 2014 the DfT published a consultation document inviting views on a wide range of aspects of the new Transpennine Express franchise. Shortlisted bidders of the new franchise are expected to be announced in August 2014, with the winning bidder expected to be announced in October 2015.

STRATEGIC REPORT
For the year ended 31 March 2014

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.

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.

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.

STRATEGIC REPORT
For the year ended 31 March 2014

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.

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.

Financial matters

The results for the year are given in the profit and loss account on page 10.

During the year the company paid interim dividends of £30,000,000 (2013: £21,000,000) and the directors have not declared a final dividend (2013: £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 2014 the company had 42 days (2013: 45 days) purchases outstanding.

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

David C Gausby
Director
29 July 2014

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

DIRECTORS' REPORT
For the year ended 31 March 2014

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2014.

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 Director's Report

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	
Darren C Higgins	(appointed 23.01.2014)
Andrew J McNeil	
Malcolm R Rimmer	
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 2014

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

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

David C Gausby
Director
29 July 2014

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 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, 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, 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 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 2014 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 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 (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

29 July 2014

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

	Note	2014 £000	2013 £000
Turnover	2	266,205	241,472
Operating costs (net)	3	(245,312)	(224,866)
Operating profit		20,893	16,606
Net interest receivable	7	2,256	2,294
Profit on ordinary activities before taxation	8	23,149	18,900
Tax charge on profit on ordinary activities	9	(6,041)	(4,679)
Profit for the financial year	19	17,108	14,221

All activities relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Profit for the financial year		17,108	14,221
Actuarial gain relating to pension scheme	22	940	200
Effect of decrease in tax rate on opening deferred tax balance attributable to actuarial gain		38	11
UK deferred taxation attributable to actuarial gain		(188)	(46)
Total recognised gains and losses for the year		17,898	14,386

BALANCE SHEET
At 31 March 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Fixed assets					
Intangible assets	11		-		635
Tangible assets	12		2,605		2,224
			2,605		2,859
Current assets					
Stock	13	169		157	
Debtors	14	25,672		25,777	
Cash at bank and in hand		60,418		70,145	
		86,259		96,079	
Creditors: amounts falling due within one year	15	(69,362)		(67,073)	
Net current assets			16,897		29,006
Total assets less current liabilities			19,502		31,865
Provision for liabilities	16		(2,635)		(2,200)
Net assets excluding pension liability			16,867		29,665
Pension liability	22		(320)		(1,068)
Net assets including pension liability			16,547		28,597
Capital and reserves					
Called up share capital	18		250		250
Profit and loss account	19		16,297		28,347
Shareholder's funds			16,547		28,597

These financial statements for First/Keolis Transpennine Limited (Company Number: 4113923) were approved by the Board of Directors on 29 July 2014 and were signed on its behalf by:

David C Gausby
Director

CASH FLOW STATEMENT

For the year ended 31 March 2014

	Note	2014 £000	2013 £000
Net cash inflow from operating activities	23(a)	26,055	14,781
Net cash inflow from returns on investments and servicing of finance	23(b)	330	494
Taxation paid		(4,772)	(12,348)
Capital expenditure and financial investment	23(c)	(1,340)	(1,320)
Equity dividends paid	10	(30,000)	(21,000)
Cash outflow before management of liquid resources and financing		(9,727)	(19,393)
Net cash inflow from financing		-	-
Decrease in cash		(9,727)	(19,393)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

For the year ended 31 March 2014

	Note	2014 £000	2013 £000
Decrease in cash in the year and movement in net funds in the year		(9,727)	(19,393)
Net funds at 1 April 2013		70,145	89,538
Net funds at 31 March 2014	24	60,418	70,145

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Profit for the financial year		17,108	14,221
Share based payment credit (see note 6)		52	62
Other recognised gains and losses relating to the year (net)		790	165
Dividends paid and declared	10	(30,000)	(21,000)
Net decrease in shareholder's funds		(12,050)	(6,552)
Opening shareholder's funds as previously stated		28,597	35,149
Closing shareholder's funds		16,547	28,597

1 Principal accounting policies

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

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable law and United Kingdom accounting standards.

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

(b) 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

(c) 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.

(d) 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. The deferred tax asset is not discounted 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:

	2014 £000	2013 £000
Passenger services	190,012	178,614
Revenue grant	65,654	52,354
Other	10,539	10,504
	266,205	241,472

3 Operating costs (net)

	2014 £000	2013 £000
Station & track access and facilities	59,699	48,438
Staff costs	59,249	52,854
External charges	125,659	122,542
Depreciation (see note 12)	959	1,191
Amortisation of grants	(889)	(783)
Intangible asset amortisation (see note 11)	635	624
	245,312	224,866

4 Employee numbers and costs

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

	2014 No	2013 No
Operations	471	438
Customer services	561	532
Other	104	94
	1,136	1,064

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	49,019	44,011
Social security costs	4,069	3,543
Pension costs (see note 22)	6,161	5,300
	59,249	52,854

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:

	2014 £000	2013 £000
Emoluments	1,242	1,184
Contributions to defined benefit schemes	85	128

Six directors were members of the company's defined benefit scheme (2013: six).

The emoluments of the highest paid director amounted to:

	2014 £000	2013 £000
Emoluments	313	265
Defined benefit schemes:		
Accrued pension at year end	16	13
Accrued lump sum at end of year	11	9

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 2009, December 2010, December 2011, December 2012 and December 2013. 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 2009 Options No.	SAYE Dec 2010 Options No.	SAYE Dec 2011 Options No.	SAYE Dec 2012 Options No.	SAYE Dec 2013 Options No.
Outstanding at beginning of the year	2,092,655	2,284,801	2,530,668	2,957,100	-
Awarded during the year	-	-	-	-	7,411,980
Bonus element of rights issue	469,111	483,423	533,497	643,399	-
Exercised during the year	-	-	-	(1,049)	-
Lapsed during the year	(2,561,766)	(591,832)	(555,406)	(500,300)	(51,844)
Outstanding at the end of the year	-	2,176,392	2,508,759	3,099,150	7,360,136
Exercisable at the end of the year	-	2,176,392	-	-	-
Weighted average exercise price (pence)	310.0	319.0	271.5	143.9	94.1
Bonus element of rights issue	(57.3)	(58.9)	(50.1)	(26.6)	-
New weighted average exercise price (pence)	252.7	260.1	221.4	117.3	-
Weighted average share price at date of exercise (pence)	N/A	N/A	N/A	122.5	N/A

The inputs into the Black-Scholes model are as follows:

	2014	2013
Weighted average share price (pence)	116.0	188.9
Weighted average exercise price (pence)	94.1	143.9
Expected volatility	35%	35%
Expected life	3 Years	3 Years
Risk-free rate of interest	1.0%	0.4%
Expected dividend yield	0%	12.5%

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.

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 £52,000 (2013: £62,000) relating to equity-settled share-based payment transactions.

7 Net interest receivable

	2014 £000	2013 £000
Income from short term deposits	330	494
Net return on pension scheme assets (note 22)	1,926	1,800
	2,256	2,294

Included within interest received is £30,230 (2013: £67,829) from related companies.

8 Profit on ordinary activities before taxation

	2014 £000	2013 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation		
- owned assets	959	1,191
Amortisation of grants	(889)	(783)
Intangible asset amortisation	635	624
Rentals payable under operating leases		
- plant and machinery	61,477	62,758
- other operating leases	42,999	32,232

	2014 £000	2013 £000
Fees payable to the company's auditor for the audit of the company's annual financial statements	61	53
Total audit fees	61	53
Other services pursuant to legislation:		
- other audit related – regulatory reporting	5	12
Total non-audit fees	5	12
Total	66	65

9 Tax on profit on ordinary activities

	2014	2013
	£000	£000
Current taxation		
- UK corporation tax charge for the year	5,575	4,549
- Adjustment in respect of prior years	103	56
Total current taxation	5,678	4,605
Deferred taxation		
- Origination and reversal of timing differences	(51)	(10)
- Effect of decrease in tax rate on opening deferred tax balance	(28)	14
- Adjustment in respect of prior years	539	82
	460	86
Deferred tax on pension schemes		
- Origination and reversal of timing differences	(152)	(29)
- Effect of decrease in tax rate on opening deferred tax balance	55	17
	(97)	(12)
Total deferred taxation	363	74
Total tax charge on profit on ordinary activities	6,041	4,679

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 23% (2013: 24%). 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:

	2014	2013
	%	%
Standard rate of taxation	23.0	24.0
Factors affecting charge:		
- Capital allowances less than depreciation	0.9	1.2
- Other timing differences	0.2	(1.1)
- Adjustments in respect of prior years	0.4	0.3
Current taxation rate for the year	24.5	24.4

During the period the UK government enacted legislation to reduce the main rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The impact of this rate reduction to 20% has reduced the deferred tax liability on UK timing differences.

10 Equity dividends

	2014	2013
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 March 2014 of £120 (2013: £84) per ordinary share	30,000	21,000
	30,000	21,000

11 Intangible fixed assets

	Franchise Goodwill £000
Cost	
At 1 April 2013	5,462
Addition	-
At 31 March 2014	5,462
Amortisation	
At 1 April 2013	4,827
Charge for year	635
At 31 March 2014	5,462
Net book value	
At 31 March 2014	0
At 31 March 2013	635

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 2013	11,739
Additions	1,340
At 31 March 2014	13,079
Accumulated depreciation	
At 1 April 2013	9,515
Charge for year	959
At 31 March 2014	10,474
Net book value	
At 31 March 2014	2,605
At 31 March 2013	2,224

13 Stock

	2014 £000	2013 £000
Fuel	169	157

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

14 Debtors

	2014 £000	2013 £000
Amounts due within one year		
Trade debtors	18,770	14,562
Amounts due from related parties (note 25)	9	4,597
Other debtors	2,602	2,069
Other prepayments and accrued income	4,291	4,224
Deferred tax asset (note 17)	-	325
	25,672	25,777

15 Creditors

	2014 £000	2013 £000
Amounts falling due within one year		
Trade creditors	20,833	23,939
Amounts owed to related parties (note 25)	2,324	1,733
Corporation tax	3,602	2,695
Other tax and social security	2,342	1,256
Other creditors	1,919	1,541
Accruals and deferred income	38,342	35,909
	69,362	67,073

16 Provision for liabilities

	Deferred Tax £000	Lease Obligations £000	Total £000
At 1 April 2013	(325)	2,200	1,875
Charged to profit and loss account	460	300	760
At 31 March 2014	135	2,500	2,635

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 2 years of the balance sheet date.

17 Deferred taxation

	£000
Asset at 1 April 2013	325
Charged to the profit and loss account (note 9 & 16)	(460)
Liability at 31 March 2014	(135)

The closing balance is included within the provision for liabilities (see note 16).

The deferred tax (liability)/asset comprises:

	2014 £000	2013 £000
Capital allowances less than depreciation	(408)	252
Other timing differences	273	73
Deferred tax (liability)/asset	(135)	325

18 Called up share capital

	2014 £000	2013 £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 2013	28,347
Profit for the financial year	17,108
Actuarial gain on pension (net)	790
Dividends (note 10)	(30,000)
Share based payment credit (note 6)	52
At 31 March 2014	16,297

20 Commitments

Capital expenditure
The company has no capital commitments at 31 March 2014 (2013: £nil).

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

	2014		2013	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	-	-	-	-
Within two to five years	537	87,616	480	94,471
More than five years	-	-	-	-
	537	87,616	480	94,471

21 Contingent liabilities

The company had no contingent liabilities at the reporting date (2013: same).
FirstGroup plc and Keolis SA have jointly provided performance bonds of £19.2 million (2013: £19.2 million) and a letter of credit facility of £3 million (2013: £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 is a member of a defined benefit pension scheme, which is funded. 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 scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out at 31 December 2010. In the indicative results the assets of the scheme were valued at £31.1 million for the former First North Western section and £49.7 million for the former Arriva Trains Northern section. The result of this valuation has been used for the purposes of these financial statements. The funding level to date of the valuation was 97.1% for the former First North Western section and 96.2% for the former Arriva Trains Northern section. Total pension costs for 12 months to 31 March 2014 were £6.2 million (2013: £5.3 million). The agreed contribution rate for next 12 months is 24.1% for the former First North Western section and 23.0% for the former Arriva Trains Northern section.

22 Pension scheme (continued)

The main financial assumptions for the combined divisions used at the balance sheet date were as follows:

	2014 £000	2013 £000	2012 £000	2011 £000
Rate of increase in salaries	3.65%	3.70%	3.75%	4.2%
Rate of increase of pensions in payment	2.10%	2.15%	1.75%	2.4%
Discount rate	4.40%	4.50%	4.65%	5.5%
Inflation assumption - RPI	3.15%	3.20%	2.75%	3.2%
Inflation assumption - CPI	2.10%	2.15%	1.75%	2.4%

The fair value of the scheme's assets, the present value of the liabilities and the expected rates of return as at 31 March 2014 were:

	2014 Expected rate of return	2013 Expected rate of return	2012 Expected rate of return	2011 Expected rate of return	2014 Value £000	2013 Value £000	2012 Value £000	2011 Value £000
Equities	7.50%	8.00%	8.40%	8.85%	-	-	-	-
Bonds	4.10%	3.75%	4.25%	5.20%	2,403	2,200	1,900	1,800
Property	6.00%	6.50%	6.40%	6.85%	-	-	-	-
Private Equity	7.50%	8.00%	8.40%	9.00%	9,467	8,900	7,900	6,800
Other	3.40%	2.80%	3.10%	4.30%	498	600	600	300
Infrastructure	7.50%	8.00%	8.00%	8.00%	4,045	3,600	3,200	3,200
Cash plus	7.50%	8.00%	8.40%	8.85%	82,784	74,800	65,300	60,400
					99,197	90,100	78,900	72,500

The long-term expected rate of return on cash is determined by reference to bond rates at the balance sheet date. The long-term expected rate on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance.

The balance sheet position for the company:

	2014 £000	2013 £000	2012 £000	2011 £000
Total fair value of assets	99,197	90,100	78,900	72,500
Present value of scheme liabilities	(140,762)	(126,400)	(102,700)	(90,300)
Franchise adjustment (60% employer's share)	24,539	20,600	12,400	10,100
Deficit in the scheme	(17,026)	(15,700)	(11,400)	(7,700)
Employee share of deficit	16,626	14,500	9,500	7,100
Liability recognised in the balance sheet	(400)	(1,200)	(1,900)	(600)
Related deferred tax asset/(liability)	80	132	155	11
Net pension liability	(320)	(1,068)	(1,745)	(589)

22 Pension scheme (continued)

Analysis of amount charged to operating profit:

	2014 £000	2013 £000
Current service costs	6,161	5,300
Total operating charge	6,161	5,300

Amounts charged to net finance income:

	2014 £000	2013 £000
Expected return on pension scheme assets	4,394	4,000
Interest on pension scheme liabilities	(2,468)	(2,200)
Net return (credit to finance income)	1,926	1,800

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

	2014 £000	2013 £000
Actual return less expected return on pension scheme assets	(1,530)	(400)
Experience gains and losses arising on scheme liabilities	(530)	(7,000)
Actuarial gain due to franchise adjustment	3,000	7,600
Actuarial gain/(loss) recognised in STRGL	940	200

Movement in scheme deficit during the year:

	2014 £000	2013 £000
Deficit at 1 April 2013 and 1 April 2012	(1,200)	(1,900)
Movement in year:		
Current service cost	(6,161)	(5,300)
Contributions	4,095	4,000
Net finance income	1,926	1,800
Actuarial gain/(loss)	940	200
Deficit at 31 March 2014 and 31 March 2013	(400)	(1,200)

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

	2014 £000	2013 £000
At 1 April 2013 and 1 April 2012	126,400	102,700
Movement in year:		
Current service cost	6,161	5,300
Brass contributions	(209)	(200)
Interest cost	3,395	2,800
Employee share of change in DBO	6,715	10,000
Actuarial loss/(gain)	690	7,000
Benefit payments	(2,390)	(1,200)
At 31 March 2014 and 31 March 2013	140,762	126,400

22 Pension scheme (continued)

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

	2014 £000	2013 £000
At 1 April 2013 and 1 April 2012	90,100	78,900
Movement in year:		
Expected return on assets	4,394	4,000
Employer contributions	4,095	4,000
Brass contributions	(209)	(200)
Employee contributions	2,828	2,600
Employee share of return on assets	1,909	2,400
Loss on assets	(1,530)	(400)
Benefits paid	(2,390)	(1,200)
At 31 March 2014 and 31 March 2013	99,197	90,100

Movements in the franchise adjustment were as follows:

	2014 £000	2013 £000
At 1 April 2013 and 1 April 2012	(34,400)	(20,700)
Movement in year:		
Interest on franchise adjustment	(928)	(600)
Employee share of change in BDO	(2,571)	(5,500)
Actuarial (loss)	(2,999)	(7,600)
At 31 March 2014 and 31 March 2013	(40,898)	(34,400)

History of experience gains and losses:

	2014	2013	2012	2011	2010
Difference between the expected and actual return on scheme assets:					
Amount (£000)	1,530	400	2,800	900	7,500
Percentage of scheme assets (%)	1.51 %	0.44 %	3.5%	1.2%	11.7%
Experience losses and gains on scheme liabilities:					
Amount (£000)	529	7,000	938	(6,100)	(15,400)
Percentage of the present value of scheme liabilities (%)	0.4%	5.5%	0.1%	(6.8%)	(17.2%)
Total actuarial gain/(loss) in the statement of total recognised gains and losses:					
Amount (£000)	940	200	(638)	(600)	1,000
Percentage of the present value of scheme liabilities (%)	0.7%	0.16%	(0.6%)	(0.7%)	1.1%

The cumulative gain recognised in the Statement of Total Recognised Gains and Losses is £2,502,000 (2013: £1,562,000). The actual return on scheme assets was £4,773,000 (2013: £6,049,000)
The company expects to contribute £5.0 million to its defined benefit schemes in the year ending 31 March 2015.

23 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	2014 £000	2013 £000
Operating profit	20,893	16,606
Depreciation and other amounts written off tangible fixed assets	959	1,191
Amortisation of intangible asset	635	624
(Increase)/decrease in stock	(12)	(16)
Decrease/(increase) in debtors	(220)	2,010
Increase/(decrease) in creditors	1,734	(6,934)
Movement in pension commitment	2,606	1,300
Net cash inflow from operating activities	26,055	14,781

(b) Returns on investments and servicing of finance	2014 £000	2013 £000
Interest received	330	494
Net cash inflow from returns on investments and servicing of finance	330	494

(c) Capital expenditure and financial investment	2014 £000	2013 £000
Purchase of tangible fixed assets	(1,340)	(1,320)
Net cash outflow from capital expenditure and financial investment	(1,340)	(1,320)

24 Analysis of net funds

	2014 £000	2013 £000
Cash at bank and in hand	60,418	70,145

25 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 2014 (2013: 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 2014 (2013: 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 2014 (2013: same) and transactions relating to the hire of equipment in the year to 31 March 2014 (2013: same).

25 Related party transactions (continued)

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 2014 (2013: same).

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 2014 (2013: 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 2014 (2013: 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 2014 (2013: 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 2014 (2013: 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 2014 (2013: same).

25 Related party transactions (continued)

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

	2014 £'000	2013 £'000
FirstGroup plc		
Affiliate service agreements and loan interest	5,133	2,820
Keolis (UK) Limited		
Affiliate service agreements and loan interest	425	399
First Capital Connect Limited		
Recharged costs	69	-
First/Keolis Transpennine Holdings Limited		
Hire of equipment costs	848	989
First ScotRail Limited		
Recharged costs	211	164
First Greater Western Limited		
Transactions' processing and recharged costs	349	316
Hull Trains Company Limited		
Affiliate service agreements	(483)	(473)
First Rail Support Limited		
Rail replacement buses	4,364	2,066
Transportation Claims Limited		
Provision of insurance & claims services	121	147
Total	11,037	6,428

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

	2014 £'000	2013 £'000
FirstGroup plc	-	2,750
Keolis (UK) Limited	-	2,250
Total	-	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:

	2014 £'000	2013 £'000
FirstGroup plc	(1,755)	2,285
Keolis (UK) Limited	-	2,271
First/Keolis Transpennine Holdings limited	-	(989)
First ScotRail Limited	(91)	(31)
First Greater Western	7	22
Hull Trains Company Limited	2	19
First Rail Support Limited	(258)	(615)
Transportation Claims Limited	(220)	(98)
Total	(2,315)	2,864

Dividends for the year of £30,000,000 (2013: £21,000,000) were paid to First/Keolis Transpennine Holdings Limited during the year. No dividends were outstanding at the year end (2013: £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 Evergreen Building North, 160 Euston Road, London, NW1 2DX.