

Registered no. 5814584

# London and Birmingham Railway Limited

## Report and Financial Statements

2 July 2011



London and Birmingham Railway Limited  
Registered No 5814584

## **DIRECTORS AND PROFESSIONAL ADVISORS**

### **Directors**

W Allan  
M P Hodson  
A Gordon  
N Vandevyver  
K Down  
D Brown  
MR Rimmer  
BDM Tabary

### **Secretary**

C Sephton

### **Auditors**

Ernst & Young LLP  
Citygate  
St James' Boulevard  
Newcastle upon Tyne  
NE1 4JD

### **Bankers**

The Royal Bank of Scotland plc  
135 Bishopgate  
London  
EC2M 3UR

### **Solicitors**

Dickinson Dees  
St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE99 3UR

### **Registered office**

3rd Floor  
41 - 51 Grey Street  
Newcastle upon Tyne  
NE1 6EE

### **Actuary**

Towers Watson Limited  
1 Wellington Place  
Wellington Street  
Leeds  
LS1 4AP

# London and Birmingham Railway Limited

## Directors' report

The directors present their report and financial statements for the year ended 2 July 2011

### Results and dividends

London and Birmingham Railway Limited was incorporated on 12 May 2006. London Midland is the trading name for London & Birmingham Railway Limited. The company commenced trading on 11 November 2007 under a 7 year and 10 month franchise from the Department for Transport (DfT). The franchise brought together parts of 2 previous franchises, Central Trains and Silverlink Trains and approximately half of a separate maintenance company, Maintrain Limited.

The loss for the year, after taxation, amounted to £389,000 (loss for the year to 3 July 2010: £2,729,000).

No dividends were paid during the year.

### Principal activities and review of the business

The principal activity of the company is the operation of passenger railway services on the long distance routes from London Euston to Liverpool via Birmingham, as well as the commuter services in and around Birmingham.

	2011 £m	2010 £m
Revenue	325.4	328.4
Operating loss	(3.0)	(1.5)
Margin	-0.9%	-0.5%
Passenger income growth (on a like for like basis*)	8.6%	7.2%

\* Like for like basis is defined as making comparisons with normalised prior year data of 52 weeks.

The year has been characterised by a consolidation of LM's performance improvement sustained last year and a continued focus on ensuring the delivery of a significant new diesel fleet for the franchise's West Midlands operations. These are scheduled to commence in August 2011. PPM (Public Performance Measure) for London Midland, measuring trains arriving at destination within 5 minutes lateness remained fairly static during the year, ending at 91.6%, whilst the latest National Passenger Survey (NPS) score for overall customer satisfaction fell from 86% to 83%, however the delivery of new trains in mid 2011 and longer term pay deals, which remove the risk of industrial action affecting our services going forward, should help to improve this.

During the year, passenger revenue growth has remained buoyant at 8.9% with an increase in passenger numbers of 4.6%, this is attributable to strong demand in the Birmingham area and on our Trent Valley and Liverpool services.

The business continues to deliver its committed obligations, and most of these have been met with all capital-related obligations forecast to be completed in the next financial year.

By April 2011, LM completed the fitment of energy meters on its electric fleet and will, from that date, be billed by Network Rail for the electricity it uses for traction, by reference to these meters. This will provide the business with much more accurate consumption data going forward which will enable it to promote more efficient and economical driving of the fleet.

# London and Birmingham Railway Limited

## Directors' report

### Financial Review

#### Funding

The company required £18.5 million of parent funding at the end of the year, to meet its DfT liquidity obligations. As at the year-end £29.3m was held on interest-bearing deposit. London Midland maintained its DfT liquidity covenants throughout the year.

#### Financial trading

London Midland's operating loss, before exceptional items, amounted to £3.0m for the year ended 2 July 2011. This result was ahead of the locally-managed forecast by £1m and in-line with the company's board expectations for the year.

This operating profit is supported by passenger revenues of £204.3m, other revenues of £40.0m and by franchise subsidy from the DfT of £81.1m.

Operating expenditure in the year amounted to £328.4m, made up of principally Network Rail charges (22%), rolling stock lease charges (15%), staff costs (31%) and charges for fuel/traction electricity (6%). Other costs make up the balance of (26%). Fuel prices were 39.19 pence per litre – which is made up of the fuel hedge price for the London Midland franchise in the early years of 27.19 pence per litre, 11 pence per litre for fuel duty and 1 pence per litre for delivery.

#### Capital investment

Capital investment over the prior years of the franchise totals £27.9m and purchases in the year (net of third party funding) amounted to £7.3m.

#### Environmental initiatives

The key environmental initiative completed in the year was the fitment of meters on the whole of the LM electric fleet. The metering equipment allows the company to accurately record its electricity consumption and thereby manage its carbon footprint.

#### Key deliverables for the forthcoming year

2011/12 will be one of the busiest franchise years for London Midland. Our commitments include:

- Capital expenditure – London Midland capital expenditure in the next financial year will be in excess of £6m. This level of expenditure will close out all financial committed obligations of a capital nature prescribed in our franchise agreement,
- Further delivery of new fleets (Diesel Class 172 units) following on from the introduction of the Class 350/2 electric units introduced last year and,
- Further focus on cost reduction and efficiencies and promoting further revenue growth.

#### Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position and financial risk management objectives and policies are described on pages 2 to 3.

The Company has considerable financial resources together with a Franchise Agreement with the Department for Transport to provide passenger railway services. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence until the end of the Franchise. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## London and Birmingham Railway Limited

### Directors' report

#### Financial risk management objectives and policies

The company's principal financial instruments comprise cash, cash equivalents and group loans. Other financial assets and liabilities, such as trade creditors and group trading balances, arise directly from the group's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below. Given that the majority of the risks below derive from transactions with other group companies, the company does not undertake any hedging activity locally. Significant financial risks from a group perspective are addressed on a case-by-case basis at group level.

#### *Interest rate risk*

The company invests surplus cash in a floating rate interest yielding bank deposit account. Interest is charged at a variable rate on group loans. Therefore financial assets, liabilities, interest income, interest charges and cash flows can be affected by movements in interest rates.

#### *Price risk*

The price of diesel fuel has been fixed by a hedge to cover all anticipated usage until 2013.

#### *Credit risk*

The majority of third party company debtors are with public or quasi public bodies (DfT etc). The company does not consider these parties to be a significant credit risk.

#### *Liquidity risk*

The company aims to mitigate liquidity risk by managing cash generated by its operations in line with group policies. A cash sweeping facility exists with the ultimate parent company and further information regarding the way the group mitigates liquidity risk can be found in the group financial statements. Capital expenditure is approved at group level.

#### *Foreign currency risk*

The company has no foreign currency risk. All of the transactions, assets and liabilities are in sterling.

#### Directors

The directors who served the company during the year were as follows:

K L Ludeman (resigned 2 July 2011)

N Swift (resigned 7 March 2011)

J Edwards (resigned 29 July 2011)

T W M Smith (resigned 31 December 2010)

P Jeantet (resigned 1 February 2011)

M Hodson

A Gordon

N Vandevyver (alternate director)

K Down (appointed 7 March 2011)

D Brown (appointed 1 April 2011)

MR Rimmer (appointed alternate director 20 July 2010)

BDM Tabary (appointed 1 February 2011)

W Allan (appointed 29 July 2011)

Messrs Brown and Down, Swift and Ludeman were directors of the ultimate parent company, The Go-Ahead Group plc during the period.

## London and Birmingham Railway Limited

### Directors' report

#### Management and staff

The Company is committed to involving all employees in its performance and development. Employees are encouraged to discuss with management matters of interest to the employees and subjects affecting the day to day operations of the Company. Discussions take place regularly with Trade Unions representing the employees on a wide range of issues.

The Company is committed to equality of opportunity in all its employment practices, policies and procedures including recruitment, promotion, opportunities for training, pay and benefits, discipline and selection for redundancy. Through its Investors in People development programme the Company is working to enhance its programmes for flexible working, reward and recognition and recruitment to ensure that the potential for discrimination is minimised and the benefits from employing a diverse workforce are maximised.

It is the Company's policy to give full consideration to suitable applications for employment by disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions in the Company.

London Midland has a well established employee briefing process which includes face to face meetings, briefings, newsletters and magazines. These cover the business context, the Company's progress in meeting its targets and new developments affecting our operations. We have long established formal relationships with the Trade Unions which address both negotiation and consultation on key issues.

Our staff are encouraged to participate in Go-Ahead share ownership schemes and encouraged to deliver superior performance through our staff excellence award scheme.

#### Creditor payment policy and practice

The company agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the suppliers.

At 2 July 2011, the company had an average of 16 days (2010: 24 days) purchases outstanding in trade creditors.

#### Directors' indemnities


The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors and the secretary which represent "qualifying third party indemnity provisions" (as defined by section 234 of the Companies Act 2006), in relation to certain losses and liabilities which the directors (or secretary) may incur to third parties in the course of acting as directors (or secretary) or employees of the Company or of any associated company. In addition such indemnities have been granted to other officers of the Company who are directors of subsidiary companies within the Group.

#### Directors' responsibilities for audit information

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Registered office  
3rd Floor  
41 - 51 Grey Street  
Newcastle upon Tyne  
NE1 6EE

By order of the Board

  
C Sephton  
Secretary

27 September 2011

London and Birmingham Railway Limited

## **Statement of directors' responsibilities in respect of the financial statements**

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

Company law requires the directors to prepare financial statements for each financial 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 judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report**

### **to the members of London and Birmingham Railway Limited**

We have audited the financial statements of London and Birmingham Railway Limited for the year ended 2 July 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. 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 auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 (APB'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.

### **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 2 July 2011 and of its loss 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.

### **Opinion on other matter prescribed by the Companies Act 2006**

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



## **Independent auditor's report**

**to the members of London and Birmingham Railway Limited (continued)**

### **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

*Ernst & Young LLP*

Kathryn Barrow (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Newcastle upon Tyne

28 September 2011

London and Birmingham Railway Limited  
**Profit and loss account**  
for the year ended 2 July 2011

	<i>Notes</i>	<i>2011 £000</i>	<i>2010 £000</i>
<b>Turnover</b>	2	325,385	328,371
Operating costs	3	(328,405)	(329,882)
<b>Operating loss before exceptional items</b>	4	(3,020)	(1,511)
Exceptional items	5	331	(3,235)
<b>Operating loss after exceptional items</b>		(2,689)	(4,746)
Interest receivable and similar income	8	2,940	1,979
Interest payable	9	(268)	(296)
<b>Loss on ordinary activities before taxation</b>		(17)	(3,063)
Tax on profit on ordinary activities	10	(372)	334
<b>Loss for the financial year transferred to reserves</b>	20	(389)	(2,729)

All activities are classed as continuing

**Statement of total recognised gains and losses**  
for the year ended 2 July 2011

	<i>2011 £000</i>	<i>2010 £000</i>
Loss for the financial year	(389)	(2,729)
Actuarial (loss) / gain on pension scheme (net of deferred taxation) (note 16)	(3,841)	3,096
<b>Total recognised gains and losses relating to the year</b>	(4,230)	367

**Balance sheet**

at 2 July 2011

	Notes	2011 £000	2010 (restated) £000
<b>Fixed assets</b>			
Intangible assets	11	6,507	8,045
Tangible assets	12	31,527	24,038
		<u>38,034</u>	<u>32,083</u>
<b>Current assets</b>			
Stocks		3,313	2,516
Debtors	13	43,819	40,656
Cash at bank		30,289	33,173
		<u>77,421</u>	<u>76,345</u>
<b>Creditors</b> amounts falling due within one year	14	(94,918)	(92,505)
<b>Net current liabilities</b>		<u>(17,497)</u>	<u>(16,160)</u>
<b>Total assets less current liabilities</b>		<u>20,537</u>	<u>15,923</u>
<b>Provisions for liabilities</b>	15	(7,886)	(2,890)
<b>Net assets excluding pension liability</b>		<u>12,651</u>	<u>13,033</u>
Pension liability	16	(3,848)	-
<b>Net assets including pension liability</b>		<u>8,803</u>	<u>13,033</u>
<b>Capital and reserves</b>			
Equity share capital	18	10,000	10,000
Profit and loss account	20	(1,197)	3,033
	20	<u>8,803</u>	<u>13,033</u>


K Down  
Director

27 September 2011

London and Birmingham Railway Limited  
**Notes to the financial statements**  
 at 2 July 2011

## 1. Accounting policies

### ***Fundamental accounting concept***

The financial statements have been prepared on a going concern basis which assumes that the company will continue in operating existence for the foreseeable future and meet its liabilities as they fall due

At the balance sheet date the company had net current liabilities of £17,497,057

The company is dependent on continuing financial support being available from its ultimate parent undertaking in order to ensure continued compliance with the franchise agreement

The directors have received confirmation from the company's ultimate parent undertaking that the necessary financial support will continue to be available to the company for the foreseeable future and, in particular, for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the directors of the company believe that it is appropriate to prepare the financial statements on a going concern basis. Should the financial support from the company's ultimate parent undertaking not be available, the going concern basis may be invalid and adjustments would have to be made to reduce the value of assets to their realisable amount, to provide any financial commitments or further liabilities which might arise and to reclassify fixed assets and long term liabilities to current assets and liabilities

### ***Basis of preparation***

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards

A true and fair override is applied to reduce the company's total pension obligations under FRS17, in respect of the deficit projected to exist at the end of the franchise term and which the company will not be required to fund

The financial statements have been prepared on the going concern basis, as the company has sufficient cash flows over a period of not less than 12 months to meet its obligations as they fall due

### ***Cash flow statement***

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that its ultimate parent company publishes a consolidated cash flow statement

### ***Revenue recognition***

Revenue is recognised to the extent that it is probable that the income will flow to the Company and that the value can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes

Rail revenue comprises amounts based principally on agreed models of route usage, by Railway Settlement Plan Limited (which administers the income allocation system within the UK rail industry), in respect of passenger receipts and other related services such as commission on tickets sold. In addition, franchise subsidy receipts from the Department for Transport are treated as revenue

Revenue is recognised by reference to the stage of completion of the customer's journey or for other services based on the proportion of the services provided. The attributable share of season ticket or travel card income is deferred within liabilities and released to the profit and loss account over the life of the relevant season ticket or travel card

Rental income is generated from rental of surplus properties and subleasing of rolling stock and railway infrastructure access. It is accounted for on a straight-line basis over the lease term

### ***Revenue sharing agreements***

The company has a revenue sharing agreement with the DfT

London and Birmingham Railway Limited  
**Notes to the financial statements**  
 at 2 July 2011

**1. Accounting policies (continued)**

***Exceptional items***

The Company presents as exceptional items on the face of the profit and loss account those material items of revenue and expense which, because of the size or the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow better understanding of financial performance

***Insurance***

The company limits its exposure to the cost of motor, employer and public liability claims through third party insurance policies. These provide individual claim cover subject to high excess limits and an annual aggregate stop loss for total claims within the excess limits. A liability is recognised for the estimated cost to the company to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss.

The estimation of this liability is made after taking appropriate professional advice and is based on an assessment of the expected settlement on known claims, together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but, which have not yet been reported to the company by the insurer.

The company has accumulated considerable experience in the evaluation and management of such claims and has historically classified this liability as an accrual within the current liabilities. As part of our review of reporting practices and policies, the company has given full consideration of this liability in the balance sheet. In light of developing trends relating to the nature of claims and the increasing time involved in their resolution, the company has determined that there is no longer a sufficient degree of certainty to classify all of this liability as an accrual rather than as a provision. As a result, this liability is now classified within provisions and accompanied by the disclosures relating to their creation, utilisation and re-measurement of the obligations. The company believes that this change in presentation provides more relevant information and aids comparability with our peers in the industry. Comparatives have been restated to show the effect of these changes.

***Operating lease agreements***

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

At the end of certain operating leases the company has an obligation to return the assets to the lessor in an appropriate condition. The anticipated cost of meeting these return conditions are included pro-rata within the financial statements.

***Operating lease incentives***

The company recognises the aggregate effect of operating lease incentives as an element of rental expense. The value of the incentive is included within accruals and deferred income, and amortised over the life of the lease.

***Operating lease income***

Operating lease income is credited to the profit and loss account on a straight line basis over the duration of the related contract.

***Intangible asset***

Where the conditions relating to the award of a franchise require the Company to assume legal responsibility for any pension liability that exists at that point in time, the Company recognises a liability representing the fair value of the related net pension deficit that the Company expects to fund during the franchise term. When a pension deficit exists at the start of the franchise, a corresponding intangible asset is recognised, reflecting the cost of acquiring the right to operate the franchise. The intangible asset is amortised through the profit and loss account on a straight line basis over the period of the franchise.

The carrying value of franchise assets is reviewed for impairment at the end of the first full financial year following the award of the franchise and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

London and Birmingham Railway Limited  
**Notes to the financial statements**  
 at 2 July 2011

**1. Accounting policies (continued)**

**Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less estimated residual value, over the shorter of the remaining life of the franchise and the below lives

Leasehold property	-	Life of the lease
Plant & equipment	-	1 to 7 years

Demountable car parks are depreciated to their estimated residual value over the life of the franchise

**Stocks**

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

**Taxation**

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred taxation is provided on all timing differences which have originated but not reversed at the balance sheet date. Except where otherwise required by accounting standards, no timing differences are recognised in respect of deferred tax assets except to the extent that it is more likely than not that they will be recovered. Deferred tax relating to items recognised outside the profit and loss account is recognised directly in equity in correlation with the underlying transaction. Otherwise, tax is recognised in the profit and loss account.

**Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

As part of our regular review of reporting practices and policies, we have determined that there is no longer a sufficient degree of certainty to continue to classify insurance claims as an accrual, and these insurance claims have been reclassified in provisions. Comparatives have been restated to show the effect of this change. The impact of this reclassification in the balance sheet is set out in notes 15 and 18. There is no effect on amounts reported in the profit and loss account.

**Retirement benefits**

The company operates a defined benefit pension scheme, a section of the Railways Pension Scheme ("RPS") which is held in a separately administered fund. The cost of this, as described below, is recognised in the profit and loss account within operating costs.

The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. The interest element of the defined benefit cost represents the change in present value of obligations during the period, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year.

London and Birmingham Railway Limited  
**Notes to the financial statements**  
 at 2 July 2011

**1. Accounting policies (continued)**

The difference between the expected return on plan assets and the interest cost, along with the current service cost, is recognised in the profit and loss account within operating costs

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price

The pension deficit reflected in the Balance Sheet is offset by a franchise adjustment so that the net deficit reflects only the proportion of the deficit that the company expects to fund during the franchise term. This reflects a departure from the requirements of FRS17 so as to show a true and fair view of the company's obligations to the RPS

As the conditions relating to the award of the franchise require the company to assume legal responsibility for a pensions liability, the company recognises an intangible asset equivalent to the net pension deficit at the commencement of the franchise, reflecting the right to operate the franchise. The intangible asset is amortised on a straight-line basis over the term of the franchise

At the previous year end, pensions that received inflationary pension increases in deferment and payment were linked to the increase in Retail Price Index inflation. The scheme now links pension increases in payment and deferment to Consumer Price Inflation

Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the profit and loss account during the period in which the settlement or curtailment occurs

***Share-based payment transactions***

The company participates in equity-settled share option schemes operated by the ultimate parent undertaking (The Go-Ahead Group plc), under which options have been granted to employees (including directors). The cost of options granted to employees is measured by reference to the fair value at the date at which they are granted, determined by an external valuation using an appropriate pricing model. In valuing equity-settled options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of The Go-Ahead Group plc ('market conditions')

The cost of options is recognised in the profit and loss account over the period from grant to vesting date, being the date on which the relevant employees become fully entitled to the award, with a corresponding increase in reserves. The cumulative cost recognised, at each reporting date, reflects the extent to which the period to vesting has expired and the director's best estimate of the number of options that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above

No cost is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately

London and Birmingham Railway Limited  
**Notes to the financial statements**  
at 2 July 2011

## 2. Turnover

Turnover which comprises passenger income, financial support receivable from the DfT and associated income, is derived from the company's ordinary activities, all of which are in the UK and continuing

## 3. Operating costs

	2011 £000	2010 £000
Materials and external charges	220,529	225,781
Staff costs	103,047	100,612
Depreciation of tangible fixed assets	2,723	1,949
Other operating charges	2,106	1,540
	<u>328,405</u>	<u>329,882</u>

## 4. Operating loss

This is stated after charging

	2011 £000	2010 £000
Auditor's remuneration - audit services	47	47
- non-audit services - taxation	7	6
	<u>54</u>	<u>53</u>
Depreciation of owned fixed assets	2,723	1,949
Amortisation of intangible assets	1,538	1,569
	<u>4,261</u>	<u>3,518</u>
Operating lease and rental charges - property	16,414	15,240
- other	49,211	51,103
- rail contracts	73,559	76,159
	<u>139,184</u>	<u>142,502</u>
Operating lease income	<u>(601)</u>	<u>(966)</u>

## 5. Exceptional items

	2011 £000	2010 £000
Redundancy costs	<u>(331)</u>	<u>3,235</u>

During the year, the business restructure was carried out at a cost which was less than expected



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**6. Staff costs**

	<i>2011</i> <i>£000</i>	<i>2010</i> <i>£000</i>
Wages and salaries	85,253	84,497
Social security costs	6,712	6,858
Other pension costs	11,082	9,257
	<u>103,047</u>	<u>100,612</u>

The monthly average number of employees during the year was as follows

	<i>2011</i> <i>No</i>	<i>2010</i> <i>No</i>
Administration and Supervision	149	146
Maintenance and Engineering	376	380
Operations	1,817	1,870
	<u>2,342</u>	<u>2,396</u>

**7. Directors' emoluments**

	<i>2011</i> <i>£000</i>	<i>2010</i> <i>£000</i>
Aggregate emoluments in respect of qualifying services	<u>410</u>	<u>424</u>

	<i>2011</i> <i>No</i>	<i>2010</i> <i>No</i>
Number of directors accruing benefits under defined benefit schemes	<u>2</u>	<u>2</u>

The amounts in respect of the highest paid director are as follows

	<i>2011</i> <i>£000</i>	<i>2010</i> <i>£000</i>
Emoluments	<u>253</u>	<u>245</u>

**8. Interest receivable and similar income**

	<i>2011</i> <i>£000</i>	<i>2010</i> <i>£000</i>
Bank interest receivable	77	150
Pension scheme financial income (note 16)	2,863	1,829
	<u>2,940</u>	<u>1,979</u>

**9. Interest payable**

	<i>2011</i> <i>£000</i>	<i>2010</i> <i>£000</i>
Bank interest payable	268	296
	<u>268</u>	<u>296</u>

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# 10. Taxation on ordinary activities

## (a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2011 £000	2010 £000
<i>Current tax</i>		
UK corporation tax	609	(1,045)
Total current tax (note 10(b))	<u>609</u>	<u>(1,045)</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(237)	711
Tax on profit on ordinary activities	<u>372</u>	<u>(334)</u>

## (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 27.5% (2010 – 28%)

The differences are reconciled below

	2011 £000	2010 £000
Loss on ordinary activities before tax	<u>(17)</u>	<u>(3,063)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 27.5% (2010 – 28%)	(4)	(858)
Expenses not deductible for tax purposes	4	8
Accounting depreciation less than tax depreciation	(79)	(735)
Short term timing differences	127	22
Deferred tax due to rate change	3	-
Non-taxable release of deferred income	(7)	-
Disallowed Pension Intangibles	291	306
Non-qualifying depreciation	292	255
Industrial Buildings Allowance claim	(18)	(43)
Total current tax (note 10(a))	<u>609</u>	<u>(1,045)</u>

London and Birmingham Railway Limited  
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# 10. Taxation on ordinary activities (continued)

## (c) Deferred tax

The deferred tax included in the Balance Sheet is as follows

	2011 £000	2010 £000	
Included in provisions (note 15)	(1,627)	(1,861)	
Netted off pension deficit (note 16)	1,352	-	
	<u>(275)</u>	<u>(1,861)</u>	
	2011 £000	2010 £000	
Accelerated capital allowances	(1,031)	(1,086)	
Other timing differences	(596)	(775)	
	<u>(1,627)</u>	<u>(1,861)</u>	
	<i>Provisions for liabilities £000</i>	<i>Netted off pension deficit £000</i>	<i>Total £000</i>
At 3 July 2010	(1,861)	-	(1,861)
Profit and loss account movement arising during the year	234	3	237
Recognised in statement of total recognised gains and losses	-	1,349	1,349
At 2 July 2011	<u>(1,627)</u>	<u>1,352</u>	<u>(275)</u>

# 11. Intangible fixed assets

	<i>Rail Franchise Asset £000</i>	<i>Other £000</i>	<i>Total £000</i>
Cost			
At 3 July 2010 and 2 July 2011	<u>12,104</u>	<u>20</u>	<u>12,124</u>
Amortisation			
At 3 June 2010	4,064	15	4,079
Provided during the year	1,538	-	1,538
At 2 July 2011	<u>5,602</u>	<u>15</u>	<u>5,617</u>
Net book value			
At 2 July 2011	<u>6,502</u>	<u>5</u>	<u>6,507</u>
At 3 July 2010	<u>8,040</u>	<u>5</u>	<u>8,045</u>

As discussed in the accounting policies note, the rail franchise asset arises when the conditions of the franchise award require the company to assume certain liabilities, including retirement benefits. As such this reflects the cost of the right to operate a rail franchise. The franchise intangible relating to London Midland is being amortised on a straight-line basis over the franchise term.

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## 12. Tangible fixed assets

	<i>Land and Buildings £000</i>	<i>Plant &amp; equipment £000</i>	<i>Total £000</i>
Cost			
At 3 July 2010	5,461	22,511	27,972
Additions	2,721	7,491	10,212
At 2 July 2011	<u>8,182</u>	<u>30,002</u>	<u>38,184</u>
Depreciation			
At 3 July 2010	346	3,588	3,934
Provided during the year	269	2,454	2,723
At 2 July 2011	<u>615</u>	<u>6,042</u>	<u>6,657</u>
Net book value			
At 2 July 2011	<u>7,567</u>	<u>23,960</u>	<u>31,527</u>
At 3 July 2010	<u>5,115</u>	<u>18,923</u>	<u>24,038</u>

## 13. Debtors

	<i>2011 £000</i>	<i>2010 £000</i>
Trade debtors	32,249	28,096
Amounts owed from group undertakings	1,520	448
Other debtors	4,629	4,260
Prepayments and accrued income	5,350	6,676
Corporation Tax	71	1,176
	<u>43,819</u>	<u>40,656</u>

## 14. Creditors: amounts falling due within one year

	<i>2011 £000</i>	<i>2010 (restated) £000</i>
Trade creditors	28,554	27,130
Amounts owed to group undertakings	-	1,241
Other taxation and social security	4,012	4,038
Other creditors	7,783	6,356
Deferred season ticket income	11,960	12,736
Accruals and deferred income	24,109	17,004
Amounts owed to Group - Loans	18,500	24,000
	<u>94,918</u>	<u>92,505</u>

London and Birmingham Railway Limited  
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## 15. Provisions for liabilities

	<i>Rail contracts</i> £000	<i>Insurance</i> £000	<i>Deferred tax</i> £000	<i>Total</i> £000
At 27 June 2009 (restated)	-	853	(54)	799
Provided	-	329	1,915	2,244
Utilised	-	(153)	-	(153)
At 3 July 2010 (restated)	-	1,029	1,861	2,890
Provided	4,600	873	-	5,473
Utilised	-	(243)	-	(243)
Released	-	-	(234)	(234)
At 2 July 2011	<u>4,600</u>	<u>1,659</u>	<u>1,627</u>	<u>7,886</u>

Provisions for Rail contracts comprise of dilapidation provisions on vehicles, depots and stations

Following a management review, it was decided that insurance claims be classified as provisions given the expected timing and nature of these claims. The insurance claims had previously been recognised within accruals and deferred income.

## 16. Pension commitments

Employees of London and Birmingham Railway Limited participate in the defined benefit section of the Railways Pension Scheme (RPS)

The assets and liabilities of the company's section are separately identifiable and segregated for funding purposes. The latest actuarial valuation of the RPS was carried out with an effective date of 31 December 2007.

The London and Birmingham Railway section of the RPS is open to new entrants. The company is currently contributing 15.84 % of Section Pay to the scheme.

The contributions made in respect of London and Birmingham Railway in the year were £7.6m (2010 - £7.9m)

It is our experience that all pension obligations to the RPS cease on expiry of the franchises without cash or other settlement, and therefore the obligations recognised on the balance sheet under FRS17 are only those that are expected to be funded during the franchise term. The total surplus or deficit is adjusted by way of a "franchise adjustment". However, in spite of our past experience and that of other train operating companies proving otherwise, our legal obligations are not restricted. On entering into a franchise, the operator becomes the designated employer for the term of the contract and under the RPS scheme rules is obliged to meet the schedule of contributions agreed with the scheme trustees and actuaries, in respect of which no funding cap is set out in the franchise contract.

FRS17 would require the company to account for its legal obligation under the formal terms of the RPS and its constructive obligation under the terms of each franchise agreement. Following industry practice, the company has concluded that the appropriate accounting policy for the RPS to ensure that the financial statements present fairly the company's financial position, financial performance and cash flows, is to recognise its constructive but not its legal RPS defined benefit obligations. In all other respects the company's accounting policy is consistent with FRS17 and the treatment adopted for non-rail defined benefit schemes. In doing so, the company has applied the true and fair override and departed from the requirements of FRS17 in order to achieve a fair presentation of the company's obligations regarding its rail schemes and prevent gains arising on transfer of the existing RPS deficits to a new franchise owner at exit.

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**16. Pension commitments** (continued)

The franchise adjustment applied to reduce the company's total obligations under FRS17, is in respect of the deficit projected to exist at the end of each current franchise term and which the company will not be required to fund

*FRS17 disclosures*

The valuation used for FRS17 disclosures has been based on the most recent actuarial valuation as at 31 December 2007 and updated by Towers Watson to take account of the requirements of FRS17 in order to assess the liabilities of the scheme at 2 July 2011 & 3 July 2010. Scheme assets are stated at their market value at the respective balance sheet dates. The expected return on assets has been derived from the expected returns from each of the main assets classes (i.e. equities and bonds). The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available), and the views of investment organisations. These have been combined, based on the asset portfolio Section, to determine the overall asset return assumption.

Main financial assumptions

	2011 %	2010 %	2009 %	2008 %
Rate of increase in salaries	4.7	4.3	4.4	5.3
Rate of increase in pensions in payment	2.7	3.3	3.4	3.8
Rate of increase in deferred pensions	2.7	3.3	3.4	3.8
Discount rate	5.6	5.3	6.3	6.2
Consumer Price index inflation	2.7	-	-	-
Retail Price Index Assumption	3.7	3.3	3.4	3.8

The most significant non-financial assumption is the assumed rate of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a male pensioner aged 65 in 2007 and a male non-pensioner aged 65 in 2027.

	At 2 July 2011	At 2 July 2010
Pensioner	20	20
Non-pensioner	22	22

The fair value of the scheme assets and the expected rate of return are

	2011		2010		2009
	Long-term rate of return expected %	Value £000	Long-term rate of return expected %	Value £000	Value £000
Equities	7.6	234,000	7.9	135,500	118,300
Bonds	4.5	12,800	4.6	25,100	17,400
Properties	7.3	10,800	7.4	30,500	26,500
Others	3.7	700	3.9	28,000	20,500
Total market value of assets		<u>258,300</u>		<u>219,100</u>	<u>182,700</u>

London and Birmingham Railway Limited  
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**16. Pension commitments** (continued)

The expected long-term rates of return were

	<i>At 2 July 2011 % pa</i>	<i>At 3 July 2010 % pa</i>
Expected rate of return	7.95	7.50

Reconciliation to the Balance Sheet

	<i>At 2 July 2011 £000</i>	<i>At 3 July 2010 £000</i>	<i>At 27 June 2009 £000</i>	<i>At 28 June 2008 £000</i>
Present value of scheme liabilities	349,000	371,300	287,300	299,100
Members share of surplus	(36,300)	(60,900)	(41,800)	(27,700)
Adjusted value of section liabilities	312,700	310,400	245,500	271,400
Market value of assets	258,300	219,100	182,700	229,800
Deficit in the scheme	(54,400)	(91,300)	(62,800)	(41,600)
Franchise adjustment	49,200	91,300	58,100	41,600
Pension liability before deferred tax	(5,200)	-	(4,700)	-
Deferred tax on pension scheme liability	1,352	-	1,316	-
Pension liability net of deferred tax	(3,848)	-	(3,384)	-

The franchise adjustment movement of (£42.1m) in the year to 2 July 2011 includes the impact of a franchise adjustment movement of (£37.1m) relating to the change from RPI to CPI

Analysis of movements in (deficit)/surplus during the year

	<i>2011 £000</i>	<i>2010 £000</i>
At start of year	-	(4,700)
Current service cost	(10,500)	(9,300)
Net other finance income	2,900	1,800
Actuarial gains and losses	(5,190)	4,300
Contributions	7,590	7,900
At end of year	(5,200)	-

London and Birmingham Railway Limited  
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**16. Pension commitments** (continued)

An analysis of the defined benefit cost for the years ended 2 July 2011 and 3 July 2010 are as follows

	2011 £000	2010 £000
Current service cost	(10,500)	(9,300)
Total operating charge	<u>(10,500)</u>	<u>(9,300)</u>
	2011 £000	2010 £000
Other finance cost expected return on assets in the scheme	9,900	9,000
Other finance cost interest cost	(11,800)	(10,800)
Other finance cost interest on franchise adjustment	4,800	3,600
Net other finance income	<u>2,900</u>	<u>1,800</u>
Difference between expected and actual return on assets	11,500	10,000
Experience (losses) / gains arising from scheme liabilities	(6,800)	4,500
Effect of changes in assumptions underlying the present value of scheme liabilities	<u>(9,890)</u>	<u>(10,200)</u>
Actuarial (losses)/gains	<u>(5,190)</u>	<u>4,300</u>
Deferred tax on actuarial (losses)/gains	1,349	(1,204)
Actuarial (losses)/gains	<u>(3,841)</u>	<u>3,096</u>

The actuarial loss of £5,190k has been accounted for in the current year, net of deferred tax

A history of experience gains and losses is shown below

	2011	2010	2009	2008
Gain/(loss) on section assets				
- amount (£000)	11,500	10,000	(40,400)	(17,000)
- % of scheme assets	4.5	4.6	(22.1)	(7.4)
Experience gains/(losses) arising on scheme liabilities				
- amount (£000)	6,800	4,500	(2,400)	2,400
- % of the present value of scheme liabilities	2.2	1.4	(1.0)	0.9
Total actuarial gains/(losses) recognised in the statement of total recognised gains and losses				
- amount (£000)	(5,190)	4,300	(4,393)	5,000
- % of the present value of scheme liabilities	(1.5)	1.4	(1.8)	1.8



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**16. Pension commitments** (continued)

Cumulative actuarial gain / (loss) recognised in the statement of total actuarial gains and losses is shown below,

	2011 £000	2010 £000
Cumulative actuarial gains recognised at the start of the year	5,000	700
Cumulative actuarial (losses)/gains recognised at the end of the year	(200)	5,000

Actual return on section assets,

	2011 £000	2010 £000
Expected return on section assets	16,500	15,000
Asset gain / (loss)	19,200	16,600
Actual return on section assets	<u>35,700</u>	<u>31,600</u>

Changes in the present value of the defined benefit obligations are analysed as follows,

	2011 £000	2010 £000
Employers share of liabilities at the start of the year	310,400	245,500
Members share of liabilities at the start of the year	60,900	41,800
Total present value of liabilities at the start of the year	<u>371,300</u>	<u>287,300</u>
Current service cost (net of member contributions)	12,000	9,700
Interest cost	19,700	18,000
Actual member contributions	4,800	4,800
Actuarial loss / (gain) *	(50,300)	58,800
Actual benefit payments	(8,500)	(7,300)
Present value of liabilities at the end of the year	<u>349,000</u>	<u>371,300</u>
Members share of liabilities at the end of the year	<u>36,300</u>	<u>60,900</u>
Employers share of liabilities at the end of the year	<u>312,700</u>	<u>310,400</u>

\* The actuarial gain of £50.3m in the year to 2 July 2011 includes the impact of an actuarial gain of £31.9m relating to the change from RPI to CPI

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**16. Pension commitments** (continued)

Changes in the fair value of the plan assets are analysed as follows,

	2011 £000	2010 £000
Fair value of assets at the start of the year	219,100	182,700
Expected return on assets	16,500	15,000
Actuarial gain on assets	19,200	16,600
Actual company contributions	7,200	7,300
Actual member contributions	4,800	4,800
Actual benefit payments	(8,500)	(7,300)
Fair value of assets at end of the year	<u>258,300</u>	<u>219,100</u>

Estimated contributions in the financial year,

	£000
Estimated company contributions in financial year 2012	7,200
Estimated employee contributions in financial year 2012	<u>4,800</u>
Estimated total contributions in financial year 2012	<u>12,000</u>

*True and fair view override*

The franchise adjustment applied to reduce the company's total obligations under FRS17, is in respect of the deficit projected to exist at the end of the franchise term and which the company will not be required to fund

If the company had accounted for the rail scheme in accordance with the full provisions of FRS17 the following adjustments would have been made to the financial statements

	2011 £m	2010 £m
<b>Balance sheet</b>		
Defined benefit pension plan (net of deferred tax)	(36,400)	(65,700)
Intangible asset	<u>6,500</u>	<u>8,000</u>
	<u>(29,900)</u>	<u>(57,700)</u>
<b>Statement of recognised gains and losses</b>		
Actuarial losses	23,500	25,300
Tax on actuarial losses	<u>(6,100)</u>	<u>(7,100)</u>
	<u>17,400</u>	<u>18,200</u>
<b>Income statement</b>		
Operating costs – franchise adjustment	(4,800)	(3,600)
Intangible asset amortisation	1,500	1,600
Deferred tax charge	<u>1,200</u>	<u>1,000</u>
	<u>(2,100)</u>	<u>(1,000)</u>

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**17. Commitments under operating leases**

At 2 July 2011 the company had annual commitments under non-cancellable operating leases as set out below

	2011			2010		
	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Other</i>
	£000	£000	£000	£000	£000	£000
Operating leases which expire						
Between 2 – 5 years	17,064		53,511			
Over five years	-	-	-	16,200	-	49,775

The company holds agreements under which they lease rolling stock, and agreements with Network Rail for access to the railway infrastructure (track, stations and depots)

Annual commitments under non-cancellable operating leases as set out below

	<i>Rail Contracts</i>	<i>Rail Contracts</i>
	2011	2010
	£000	£000
Operating leases which expire		
Between 2 – 5 years	76,984	-
Over five years	-	78,105
	<u>76,984</u>	<u>78,105</u>

**18. Related party transactions**

	<i>The Go-Ahead Group plc &amp; Subsidiary Companies</i>	
	2011	2010
	£000	£000
Purchases from related party	(3,934)	(5,855)
Sales to related party	235	3,626
Amounts owed from related party	1,520	448
Amounts owed to related party	-	(841)
Amounts owed to related party - Loan	(18,500)	(24,000)

The Go-Ahead Group plc owns 65% and Keolis (UK) Limited owns 35% of the ordinary shares in GOVIA Limited. London and Birmingham Railway Limited is 100% owned by GOVIA Limited

The company enters into arms length transactions with various Go-Ahead Group companies for the provision of certain services

No other transactions with related parties were undertaken such as are to be disclosed under Financial Reporting Standard 8

**19. Share capital**

		<i>Allotted, called up and fully paid</i>	
	No	2011	2010
		£000	£000
Ordinary shares of £1 each	10,000,000	<u>10,000</u>	<u>10,000</u>

London and Birmingham Railway Limited  
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**20. Reconciliation of shareholders' funds and movement on reserves**

	<i>Equity share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total share- holders' funds £000</i>
At 27 June 2009	10,000	2,666	12,666
Loss for the financial year	-	(2,729)	(2,729)
Defined pension benefit scheme (net of deferred tax)	-	3,096	3,096
At 3 July 2010	10,000	3,033	13,033
Loss for the financial year	-	(389)	(389)
Defined pension benefit scheme (net of deferred tax)	-	(3,841)	(3,841)
At 2 July 2011	10,000	(1,197)	8,803

**21. Restricted cash**

Included within cash at bank is an amount of £30,289k (2010 - £33,173k) held, which cannot be distributed by means of a dividend

**22. Ultimate parent company**

The immediate parent company of London and Birmingham Railway Limited is GOVIA Limited

In the directors' opinion the company's ultimate parent company and controlling party is The Go-Ahead Group plc which is also the parent undertaking of the group of undertakings for which group financial statements are drawn up. The Go-Ahead Group plc is registered in England and Wales and copies of its financial statements can be obtained from Companies House, Cardiff

**23. Share Based Payments**

The group operates an HM Revenue & Customs ('HMRC') approved savings-related share option scheme, known as The Go-Ahead Group plc Savings-Related Share Option Scheme 2003 (the 'Sharesave Scheme'). The Sharesave Scheme is open to all group employees (including executive directors) who have completed at least six months' service with a group company at that date they are invited to participate in the scheme. Qualifying employees are invited to save between £5 and £250 per month for a period of three to five years. At the end of that period, employees can apply the amounts saved, together with a bonus, in acquiring shares in the company at a minimum price equal to 80% of their market price at the time of invitation.

The expense recognised for these schemes during the year to 2 July 2011 was £nil (2010 - £nil)

The following table illustrates the number (No) and weighted average exercise prices (WAEP) of share options for the SAYE

	<i>No</i>	<i>2011 WAEP £</i>	<i>No</i>	<i>2010 WAEP £</i>
Outstanding at the beginning of the period	444	19 14	191	14 62
Transferred in during the year	-	-	444	19 14
Forfeited during the period	(444)	19 14	(191)	14 62
Outstanding at the end of the period	-	-	444	19 14

There are no share options outstanding at the year end