

FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2009

**Company Registered
Number: 4113923**

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FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS 2009

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DIRECTORS' REPORT**For the year ended 31 March 2009**

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2009.

Principal activities

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

Business review

The directors are satisfied with the performance of the company during the year. Turnover was £245,938,000, which was an increase of 11.9% on the previous year (2008: £219,735,000). Operating profit was £35,684,000, which was an increase of 21.2% on the previous year (2008: £29,431,000).

Train performance dipped towards the end of the year with the rail industry measure of performance - Public Performance Measurement (PPM) - at 90.3% for the full year to 31 March 2009 (2008: 91.7%). The main cause of the decline was in respect of the effects of cable theft, poor weather and increased driver sickness. It was, however, pleasing to end the year above 90%.

Our new timetable in December 2008 introduced additional services between Manchester Airport and Edinburgh and Glasgow. We also cut journey times by 20 minutes. The timetable also improved service frequencies on Sundays between Newcastle and Manchester Airport and between Manchester and York.

The Secretary of State for Transport, the Rt. Hon. Geoff Hoon MP, officially opened the new third platform at Manchester Airport. Network Rail, Greater Manchester Passenger Transport Executive (GMPTE) and the Northern Way funded the £15 million project to deliver additional capacity for customers arriving at the airport and ease pressure on Manchester Piccadilly Station.

In the Spring National Passenger Survey (NPS) overall customer satisfaction was 87% (2008: 84%), an improvement of 3%. The survey highlighted improved satisfaction with on-train facilities and train performance, reflecting our investment of £250 million in the Class 185 trains.

Outlook

Our focus over the coming year is to consolidate the great work and achievements we have made this year and to strive towards our goal of delivering great service every day. We will still maintain our focus on performance and aim for a consistent PPM score of at least 90%.

Financial matters

The results for the year are given in the profit and loss account on page 9.

During the year the company paid interim dividends of £16,000,000 (2008: £20,500,000) and the directors do not propose the payment of a final dividend (2008: £nil).

DIRECTORS' REPORT**For the year ended 31 March 2009**

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 2009 the company had 43 days (2008: 41 days) purchases outstanding.

Directors

The directors who held office throughout the year (except as noted) and subsequently appointed are as follows:

Bruno Auger	
Vernon I Barker (Managing Director)	
Elizabeth A Collins	
John H A Curley	(resigned 16.03.2009)
Nicholas C Donovan	
Maria F Earl	(resigned 08.04.2009)
Paul D P Furze-Waddock	
David C Gausby	
Leo D Goodwin	
Alistair Gordon	(appointed 17.04.2008)
Mary A Grant	(appointed 22.01.2009)
Andrew Haines	(resigned 30.12.2008)
Michael S Hogg	(resigned 30.12.2008)
David Nunn	(appointed 17.04.2008)
Stephane Richon	
Edith M Rodgers	
Paul C Watson	(appointed 01.12.2008)
Leila Frances	(resigned 28.01.2009)

Employee involvement

Communication with employees is effected 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 2009**

Principal risks and uncertainties**Rail franchise agreement**

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 monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Legislation and regulation

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

Labour costs

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

Fuel costs

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

Terrorism

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

DIRECTORS' REPORT**For the year ended 31 March 2009**

Principal risks and uncertainties (continued)**Economy**

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

Financial instruments

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

Going concern

The directors have considered the going concern assumption given the current economic climate and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future. The Directors have considered the company forecasts in forming this judgement.

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

Audit information

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s234ZA of the Companies Act 1985.

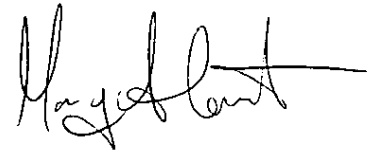
DIRECTORS' REPORT

For the year ended 31 March 2009

Auditors

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually. On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. Deloitte LLP have indicated their willingness to continue as auditors of the company and are therefore deemed to be re-appointed for a further term.

Approved and signed by the Board of Directors



Ground Floor
50 Eastbourne Terrace
London
W2 6LX

Mary A Grant
Director
28 July 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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). The financial statements are required by law to 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 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 proper accounting records that 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 1985. 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 AUDITORS' 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 2009 which comprise the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net funds, the reconciliation of movements in shareholders' funds, the statement of total recognised gains and losses and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRST/KEOLIS
TRANSPENNINE LIMITED**

Basis of audit opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP

Chartered Accountants and Registered Auditors
Leeds
United Kingdom

2nd July 2009

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2009

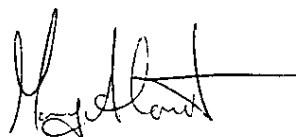
	Note	2009 £000	2008 £000
Turnover	2	245,938	219,735
Operating costs (net)	3	<u>(210,254)</u>	<u>(190,304)</u>
Operating profit		35,684	29,431
Net interest receivable	7	<u>2,893</u>	<u>3,096</u>
Profit on ordinary activities before taxation	8	38,577	32,527
Tax charge on profit on ordinary activities	9	<u>(10,963)</u>	<u>(9,976)</u>
Profit on ordinary activities after taxation	19	<u>27,614</u>	<u>22,551</u>

All activities relate to continuing operations.

BALANCE SHEET
At 31 March 2009

	Note	2009		2008	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	11	-	1,572		2,079
Tangible assets	12		<u>4,274</u>		<u>8,872</u>
			5,846		10,951
Current assets					
Stocks	13	60		143	
Debtors	14	20,752		21,931	
Cash at bank and in hand		<u>73,366</u>		<u>52,011</u>	
		94,178		74,085	
Creditors: amounts falling due within one year	15	<u>(66,223)</u>		<u>(65,098)</u>	
Net current assets			<u>27,955</u>		<u>8,987</u>
Total assets less current liabilities			33,801		19,938
Creditors: amounts falling due after more than one year	16		<u>(10,853)</u>		<u>(8,691)</u>
Net assets excluding pension liability			22,948		11,247
Pension liability	22		<u>(1,664)</u>		<u>(1,302)</u>
Net assets including pension liability			<u>21,284</u>		<u>9,945</u>
Capital and reserves					
Called up share capital	18		250		250
Profit and loss account	19		<u>21,034</u>		<u>9,695</u>
Equity shareholders' funds			<u>21,284</u>		<u>9,945</u>

These financial statements were approved by the Board of directors on 28 July 2009 and were signed on its behalf by:



Mary A Grant
Director

CASH FLOW STATEMENT**For the year ended 31 March 2009**

	Note	2009 £000	2008 £000
Net cash inflow from operating activities	23(a)	43,449	44,632
Net cash inflow from returns on investments and servicing of finance	23(b)	2,293	2,196
Taxation paid		(11,872)	(8,197)
Capital expenditure and financial investment	23(c)	3,485	(389)
Equity dividends paid	10	(16,000)	(20,500)
		<u>21,355</u>	<u>17,742</u>
Net cash inflow from financing		-	-
Increase in cash		<u>21,355</u>	<u>17,742</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**For the year ended 31 March 2009**

	Note	2009 £000	2008 £000
Increase in cash in the year and movement in net funds in the year		21,355	17,742
Net funds at 1 April 2008		52,011	34,269
Net funds at 31 March 2009	24	<u>73,366</u>	<u>52,011</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**For the year ended 31 March 2009**

	Notes	2009 £000	2008 £000
Profit for the financial year		27,614	22,551
FRS 20 share based payment charge		85	73
Other recognised losses relating to the year (net)		(360)	(1,574)
Dividends paid	10	(16,000)	(20,500)
Net increase in shareholders' funds		<u>11,339</u>	<u>550</u>
Opening shareholders' funds as previously stated		<u>9,945</u>	<u>9,395</u>
Closing shareholders' funds		<u>21,284</u>	<u>9,945</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**For the year ended 31 March 2009**

	Notes	2009 £000	2008 £000
Profit for the financial year		27,614	22,551
Actuarial loss relating to pension scheme	22	(500)	(2,300)
UK deferred taxation attributable to actuarial loss		140	644
Deferred tax credit arising from the decrease in tax rate		-	82
Total recognised gains and losses for the year		<u>27,254</u>	<u>20,977</u>

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 Directors' Report on page 4.

(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 share 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 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:

	2009 £000	2008 £000
Passenger services	127,391	106,082
Revenue grant	108,458	105,001
Other	10,089	8,652
	<u>245,938</u>	<u>219,735</u>

3 Operating costs (net)

	2009 £000	2008 £000
Station & track access and facilities	75,699	72,083
Staff costs	44,397	40,659
External charges	89,067	75,947
Depreciation	2,105	1,915
Amortisation of grants	(530)	(53)
Intangible asset amortisation	507	507
Profit on disposal of fixed assets	(991)	(754)
	<u>210,254</u>	<u>190,304</u>

4 Employee numbers and costs

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

	2009 No	2008 No
Operations	419	392
Customer services	524	525
Other	89	83
	<u>1,032</u>	<u>1,000</u>

The aggregate payroll costs of these persons were as follows:

	2009 £000	2008 £000
Wages and salaries	37,879	34,074
Social security costs	2,618	2,585
Service cost	3,900	4,000
	<u>44,397</u>	<u>40,659</u>

Included in staff costs are redundancy costs of £366,000 (2008: none).

5 Directors' remuneration

The remuneration of the directors during the year was as follows:

	2009 £000	2008 £000
Aggregate emoluments (excluding pension contributions)	1,328	1,106
Company pension contributions to defined benefit scheme	96	80
	<u>1,424</u>	<u>1,186</u>

The emoluments of the highest paid director amounted to:

	2009 £000	2008 £000
Aggregate emoluments	<u>375</u>	<u>323</u>
Defined benefit scheme	22	20
Accrued pension at year end	20	17
Accrued lump sum at end of year	<u>14</u>	<u>12</u>

No director exercised share options during the year or became entitled to receive shares under the FirstGroup 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 Inland Revenue approved savings related share option scheme. Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007 and December 2008. 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 2004 Options No.	SAYE Apr. 2006 Options No.	SAYE Dec. 2006 Options No.	SAYE Dec 2007 Options No.	SAYE Dec 2008 Options No.
Outstanding at beginning of the year	204,971	1,749,573	2,285,740	2,363,117	-
Granted during the year	-	-	-	-	2,542,138
Exercised during the year	(134,425)	(14,085)	(11,938)	(65)	-
Lapsed during the year	(70,546)	(135,470)	(295,723)	(588,621)	(47,816)
Outstanding at the end of the year	-	1,600,018	1,978,079	1,774,431	2,494,322
Exercisable at the end of the year	-	-	-	-	-
Weighted average exercise price (pence)	267.0	325.0	444.0	583.0	371.0
Weighted average share price at date of exercise (pence)	534.7	487.7	442.8	576.2	N/A

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

	2009	2008
Weighted average share price (pence)	407.3	714.0
Weighted average exercise price (pence)	315.0	583.0
Expected volatility	30%	25%
Expected life	3 Years	3 Years
Risk-free rate of interest	2.7%	4.5%
Expected dividend yield	3.0%	2.5%

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.

6. Share based payments (continued)

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 £85,000 (2008: £73,000) relating to equity-settled share-based payment transactions.

7 Net interest receivable

	2009 £000	2008 £000
Income from short term deposits	2,293	2,196
Net return on pension scheme assets (note 22)	600	900
	<u>2,893</u>	<u>3,096</u>

8 Profit on ordinary activities before taxation

	2009 £000	2008 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration		
- Audit fee for audit of the company's own accounts	46	46
Depreciation		
- owned assets	2,105	1,915
Profit on disposal of fixed assets	(991)	(754)
Amortisation of grants	(530)	(53)
Intangible asset amortisation	507	507
Rentals payable under operating leases		
- plant and machinery	43,971	36,544
- other operating leases	<u>71,649</u>	<u>68,023</u>

No fees were payable (2008: £nil) to the auditors for non-audit services.

9 Tax on profit on ordinary activities

	2009 £000	2008 £000
<i>Current taxation</i>		
- UK corporation tax charge for the year	11,380	10,054
- Adjustment in respect of prior years	(19)	353
Total current taxation	11,361	10,407
<i>Deferred taxation</i>		
- Origination and reversal of timing differences	(378)	(184)
- Adjustment in respect of prior years	178	(102)
- Effect of decrease in tax rate on opening asset	-	23
	(200)	(263)
Deferred tax on pension schemes		
- Origination and reversal of timing differences	(198)	(170)
- Effect of decrease in tax rate on opening pension asset	-	2
	(198)	(168)
Total deferred taxation	(398)	(431)
Total tax charge on profit on ordinary activities	10,963	9,976

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 28% (2008: 30%). 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:

	2009 %	2008 %
Standard rate of taxation	28.0	30.0
Factors affecting charge:		
- Income not chargeable for tax purposes	-	(0.1)
- Capital allowances in excess of depreciation	0.9	0.4
- Other timing differences	0.6	0.7
- Adjustments in respect of prior years	-	1.0
Current taxation rate for the year	29.5	32.0

10 Equity dividends

	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 March 2009 of £64 (2008: £82) per ordinary share	16,000	20,500
	<u>16,000</u>	<u>20,500</u>

The directors do not recommend the payment of a final dividend for the year ended 31 March 2009 (2008: same).

11 Intangible fixed assets

	Franchise Goodwill £000
Cost	
At 1 April 2008 and 31 March 2009	<u>4,100</u>
Amortisation	
At 1 April 2008	2,021
Charge for year	507
At 31 March 2009	<u>2,528</u>
Net book value	
At 31 March 2009	<u>1,572</u>
At 31 March 2008	<u>2,079</u>

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 2008	12,124
Additions	1,096
Disposals	(4,694)
At 31 March 2009	<u>8,526</u>
Accumulated depreciation	
At 1 April 2008	3,252
Charge for year	2,105
Disposals	(1,105)
At 31 March 2009	<u>4,252</u>
Net book value	
At 31 March 2009	<u>4,274</u>
At 31 March 2008	<u>8,872</u>

13 Stocks

	2009 £000	2008 £000
Fuel	<u>60</u>	<u>143</u>

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

14 Debtors

	2009 £000	2008 £000
Amounts due within one year		
Trade debtors	12,323	12,986
Amounts due from related parties (note 25)	4,794	2,784
Other debtors	1,082	2,010
Other prepayments and accrued income	1,832	3,630
Deferred tax asset (note 17)	721	521
	<u>20,752</u>	<u>21,931</u>

15 Creditors

	2009 £000	2008 £000
Amounts falling due within one year		
Trade creditors	19,282	20,652
Amounts owed to related parties (note 25)	1,537	692
Corporation tax	6,201	6,711
Other tax and social security	1,614	1,024
Other creditors	4,565	5,993
Accruals and deferred income	33,024	30,026
	<u>66,223</u>	<u>65,098</u>

16 Creditors

	2009 £000	2008 £000
Amounts falling due after more than one year		
Accruals and deferred income	<u>10,853</u>	<u>8,691</u>

17 Deferred taxation

	£000
Asset at 1 April 2008	521
Credited to the profit and loss account (note 9)	200
Asset at 31 March 2009	<u>721</u>

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

The deferred tax asset comprises:

	2009 £000	2008 £000
Capital allowances in excess of depreciation	622	480
Other timing differences	99	41
Deferred tax asset	<u>721</u>	<u>521</u>

18 Called up share capital

	2009 £000	2008 £000
Authorised		
500,000 ordinary shares of £1 each	<u>500</u>	<u>500</u>
Allotted, called up and fully paid		
250,001 ordinary shares of £1 each	<u>250</u>	<u>250</u>

19 Reserves

	Profit and loss account £000
At 1 April 2008	9,695
Retained profit for the year	27,614
Actuarial loss on pension deficit (net)	(360)
Dividends paid (note 10)	(16,000)
FRS 20 share based payment charge (note 6)	85
At 31 March 2009	<u>21,034</u>

20 Commitments

Capital expenditure

The company has no capital commitments at 31 March 2009 (2008: £nil).

Operating leases

Commitments for payments in the next year under non-cancellable operating leases are as follows:

	2009		2008	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	-	-	-
Within two to five years	555	105,065	461	104,106
More than five years	-	-	-	-
	<u>555</u>	<u>105,065</u>	<u>461</u>	<u>104,106</u>

21 Contingent liabilities

FirstGroup plc and Keolis SA have jointly provided performance bonds of £15.5 million (2008: £10.4 million) and a letter of credit facility of £3 million (2008: £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 2007 using the projected unit method at which date the assets of the scheme were valued at £24.011 million for the former First North Western section and £44.17 million for the former Arriva Trains Northern section. The result of this valuation has been used for the purposes of these accounts. The funding level to date of the valuation was 112.1% for the former First North Western section and 112.4% for the former Arriva Trains Northern section. Total pension costs for 12 months to 31 March 2009 were £3.9 million (2008: £4 million). The agreed contribution rate for next 12 months is 24.1% for the former First North Western section and 25.3% for the former Arriva Trains Northern section.

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

	2009	2008	2007
	£000	£000	£000
Rate of increase in salaries	4.1%	4.8%	4.3%
Rate of increase of pensions in payment	2.6%	3.3%	2.8%
Discount rate	6.75%	6.85%	5.45%
Inflation assumption	2.6%	3.3%	2.8%

The fair value of the scheme's assets, the present value of the liabilities and the expected rates of return as at 31 March 2009 were:

	2009	2008	2007	2009	2008	2007
	Expected	Expected	Expected	Value	Value	Value
	rate of	rate of	rate of	£000	£000	£000
	return	return	return			
Equities	8.65%	8.95%	8.45%	28,600	37,900	39,600
Bonds	6.5%	5.5%	4.8%	2,300	2,800	4,600
Property	6.8%	6.8%	6.3%	4,200	5,400	7,200
Other	8.65%	5.0%	4.0%	4,600	6,000	4,200
Infrastructure	4.0%	8.0%	-	200	500	-
Cash plus	8.0%	8.95%	-	3,300	3,300	-
				<u>43,200</u>	<u>55,900</u>	<u>55,600</u>

22 Pension scheme (continued)

The balance sheet position for the company:

	2009	2008	2007
	£000	£000	£000
Total fair value of assets	43,200	55,900	55,600
Present value of scheme liabilities	(56,100)	(57,600)	(60,100)
Franchise adjustment	6,100	100	4,100
Deficit in the scheme	(6,800)	(1,600)	(400)
Employee share of deficit	5,100	600	1,800
(Liability)/asset recognised in the balance sheet	(1,700)	(1,000)	1,400
Related deferred tax asset/(liability)/asset	36	(302)	(1,196)
Net pension (liability)/asset	(1,664)	(1,302)	204

Analysis of amount charged to operating profit:

	2009	2008
	£000	£000
Current service costs	3,900	4,000
Total operating charge	3,900	4,000

Amounts charged to net finance income:

	2009	2008
	£000	£000
Expected return on pension scheme assets	2,900	2,500
Interest on pension scheme liabilities	(2,300)	(1,600)
Net return (credit to finance income)	600	900

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

	2009	2008
	£000	£000
Actual return less expected return on pension scheme assets	(12,800)	(3,200)
Experience gains and losses arising on scheme liabilities	6,200	5,200
Actuarial gain/(loss) due to franchise adjustment	6,100	(4,300)
Actuarial loss recognised in STRGL	(500)	(2,300)

Movement in scheme deficit during the year:

	2009	2008
	£000	£000
(Deficit)/asset at 1 April 2008 and 1 April 2007	(1,000)	1,400
Movement in year:		
Current service cost	(3,900)	(4,000)
Contributions	3,100	3,000
Net finance income	600	900
Actuarial loss	(500)	(2,300)
(Deficit) at 31 March 2009 and 31 March 2008	(1,700)	(1,000)

22 Pension scheme (continued)

History of experience gains and losses:	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets:				
Amount (£000)	(12,800)	(3,200)	4,200	4,800
Percentage of scheme assets (%)	(29.6%)	(5.7%)	7.6%	10.4%
Experience losses and gains on scheme liabilities:				
Amount (£000)	6,200	5,200	(1,600)	(3,000)
Percentage of the present value of scheme liabilities (%)	11%	9.0%	(2.7%)	(5.9%)
Total actuarial (loss)/gain in the statement of total recognised gains and losses:				
Amount (£000)	(500)	(2,300)	2,600	1,800
Percentage of the present value of scheme liabilities (%)	(1%)	(4.0%)	4.3%	3.5%

23 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	2009	2008
	£000	£000
Operating profit	35,684	29,431
Depreciation and other amounts written off tangible fixed assets	2,105	1,915
Profit on sale of fixed assets	(991)	(754)
Amortisation of intangible asset	507	507
Decrease/(Increase) in stock	83	(64)
Decrease/(Increase) in debtors	1,379	(3,946)
Increase in creditors	3,882	16,543
Movement in pension commitment	800	1,000
Net cash inflow from operating activities	<u>43,449</u>	<u>44,632</u>
(b) Returns on investments and servicing of finance	2009	2008
	£000	£000
Interest received	2,293	2,196
Net cash inflow from returns on investments and servicing of finance	<u>2,293</u>	<u>2,196</u>
(c) Capital expenditure and financial investment	2009	2008
	£000	£000
Purchase of tangible fixed assets	(1,095)	(1,920)
Sale of tangible fixed assets	5,313	1,531
Net cash outflow from capital expenditure and financial investment	<u>3,485</u>	<u>(389)</u>

24 Analysis of net funds

	2009 £000	2008 £000
Cash at bank and in hand	<u>73,366</u>	<u>52,011</u>

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 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 2009 (2008: 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 shareholding and control of the companies. There were transactions relating to affiliate service agreements and interest charged on loans in the year to 31 March 2009 (2008: same).

First Capital Connect Limited is a wholly owed 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 2009 (2008: same).

First ScotRail Limited is a wholly owed 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 2009 (2008: 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 2009 (2008: same) in relation to the transactions' processing performed for the Company.

First Manchester Limited is a wholly owed 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 2009 (2008: same).

Great Western Trains Company 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 2009 (2008: same) in relation to the transactions' processing performed for the Company.

25 Related party transactions (continued)

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 2009 (2008: same).

First Rail Support Limited is a wholly owed 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 2009 (2008: same).

Transportation Claims Limited is a wholly owed 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 2009 (2008: same).

FirstInfo Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to the provision of customer services in the year to 31 March 2009 (2008: same).

25 Related party transactions (continued)

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

	2009 £'000	2008 £'000
FirstGroup plc		
Affiliate service agreements and loan interest	3,878	5,029
Keolis (UK) Limited		
Affiliate service agreements and loan interest	341	423
First Capital Connect Limited		
Recharged costs	4	5
First ScotRail Limited		
Recharged costs	101	88
First Greater Western Limited		
Transactions' processing and recharged costs	472	256
First Manchester Limited		
Recharged costs	19	28
Great Western Trains Company Limited		
Recharged costs	2	(18)
Great Western Holdings Limited		
Recharged costs	(33)	-
Hull Trains Company Limited		
Affiliate service agreements	(532)	(236)
First Rail Support Limited		
Rail replacement buses	3,504	1,172
Transportation Claims Limited		
Provision of insurance & claims services	132	53
FirstInfo Limited		
Provision of customer services	485	329
Total	<u>8,373</u>	<u>7,129</u>

The following amounts were outstanding to the Company at the end of the year in relation to loan transactions:

	2009 £'000	2008 £'000
FirstGroup plc	2,750	1,650
Keolis (UK) Limited	2,250	1,350
Total	<u>5,000</u>	<u>3,000</u>

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:

	2009 £'000	2008 £'000
FirstGroup plc	2,390	1,357
Keolis (UK) Limited	2,336	1,378
First Capital Connect Limited	-	(9)
First ScotRail Limited	(9)	16
First Greater Western	29	25
First Manchester Limited	(11)	4
Great Western Holdings Limited	-	(39)
Great Western Trains Company Limited	-	3
Hull Trains Company Limited	39	1
First Rail Support Limited	(1,273)	(504)
Transportation Claims Limited	(185)	(53)
FirstInfo Limited	(59)	(87)
Total	3,257	2,092

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 accounts are consolidated are FirstGroup plc. Copies of the accounts of FirstGroup plc can be obtained from the London office of this company at Ground Floor, 50 Eastbourne Terrace, London, W2 6LX. Copies of the accounts of Keolis (UK) Limited can be obtained from Northumberland House, 303-306 High Holborn, London WC1V 7JZ.