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FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2005



**Company Registered
Number: 4113923**

FIRST/KEOLIS TRANSPENNINE LIMITED

REPORT AND FINANCIAL STATEMENTS

31 March 2005

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DIRECTORS' REPORT**31 March 2005**

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2005.

Principal activities

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

Review of the business and future developments

The successful start to the franchise has continued through this second period of operation. Passenger revenue and passenger volumes are running ahead of expectations. A new timetable was introduced in December 2004 offering passengers faster journey times, additional services and extra capacity. Our fastest growing flow is in to and out of Manchester Airport, where revenue has grown by 19% and passenger journeys have increased by 23.4%.

In March, Siemens commenced work to build a new train-care depot in Manchester with a second depot planned for York. These depots will maintain 51 new Siemens trains due for introduction in 2006, offering passengers in the region a modern, high performance intercity fleet and a step-change in the quality of service we are able to offer. The company has no capital commitments in respect of the depot.

Results and dividends

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

During the year the company paid an interim dividend of £5,000,000 (2004: nil) and the directors recommend the payment of a final dividend of £5,500,000 (2004: £1,850,000). The directors recommend that the retained profit of £391,000 (2004: £nil) be transferred to reserves.

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 2005 the company had 45 days (2004: 45 days) purchases outstanding.

DIRECTORS' REPORT

31 March 2005

Directors and their interests

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

Bruno Auger	
Vernon I Barker (Managing Director)	
Clive Burrows	
Nicholas K Chevis	(resigned 07.04.2005)
John H A Curley	(appointed 19.04.2005)
Jean-Pierre Deghaye	
Richard F Drake	(appointed 15.07.2004)
Danny P Fox	
Paul D P Furze-Waddock	
David C Gausby	(appointed 07.10.2004)
Jeremy P Long	(resigned 07.04.2005)
Kenneth W Scott	

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the ultimate controlling party, FirstGroup plc:

	Ordinary 5p shares			
	At 1 April 2004	Additions	Disposals	At 31 March 2005
V I Barker	85	-	-	85
C Burrows	25,497	8,756	-	34,253
N K Chevis	5,820	-	(4,873)	947
R F Drake	36	196	-	232
D P Fox	134	333	-	467
P Furze-Waddock	5,241	-	(4,805)	436
D C Gausby	212	219	-	431
J P Long	102	570	-	672
K W Scott	862	597	-	1,459

	Share options under savings related share option scheme				
	At 1 April 2004	Granted during year	Lapsed or waived	Exercised	At 31 March 2005
V I Barker	4,921	-	-	-	4,921
N K Chevis	1,968	-	-	-	1,968
R F Drake	3,976	-	-	-	3,976
D P Fox	-	2,129	-	-	2,129
P Furze-Waddock	4,921	-	-	-	4,921
J P Long	3,658	-	-	-	3,658
K W Scott	1,968	-	-	-	1,968

DIRECTORS' REPORT**31 March 2005****Directors and their interests (cont.)**

Deferred bonus shares – 5p ordinary shares					
	At 1 April 2004	Granted during year	Lapsed or waived	Exercised	At 31 March 2005
V I Barker	11,794	10,519	-	(482)	21,831
N K Chevis	32,270	12,350	-	(8,515)	36,105
C Burrows	28,498	10,519	-	(8,756)	30,261
P Furze-Waddock	10,102	5,982	-	-	16,084
D C Gausby	3,001	-	-	(313)	2,688

Executive share option scheme – 5p ordinary shares					
	At 1 April 2004	Granted during year	Lapsed or waived	Exercised	At 31 March 2005
V I Barker	33,248	19,631	-	-	52,879
N K Chevis	56,101	21,210	-	-	77,311
C Burrows	47,781	18,065	-	-	65,846
R F Drake	-	19,631	-	-	19,631
P Furze-Waddock	42,971	18,177	-	-	61,148
D C Gausby	-	9,997	-	-	9,997

Information stated at the beginning of the year is the interests at the start of the financial year or the date of appointment, if later.

Information, including details of exercise prices, relating to the savings related share option scheme and the long-term incentive plan are given in note 31 to the financial statements of FirstGroup plc.

There are no contracts or arrangements with the company or any of its fellow group undertakings, other than service contracts, in which any of the directors is materially interested and which is significant in relation to the business of the company or any of its fellow group undertakings taken as a whole.

The directors have no other interests which are required to be disclosed in line with Schedule 7 of the Companies Act.

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.

DIRECTORS' REPORT

31 March 2005

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.

Charitable and political donations

There were no payments made for political or charitable purposes during the current or preceding year.

Auditors

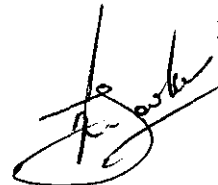
The Company has passed an elective resolution dispensing with the requirement to appoint auditors annually. Deloitte & Touche LLP have indicated their willingness to continue as auditors of the Company and are therefore deemed to be re-appointed for a further term.

Approved and signed by the Board of Directors

Macmillan House
Paddington Station
London
W2 1FG

Vernon Barker
Director

28 July 2005

A handwritten signature in black ink, appearing to read 'Vernon Barker', is written over a circular stamp or seal.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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 accounting standards have been followed; 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for the system of internal control, for safeguarding the assets of the company and hence 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 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net funds, the reconciliation of movements in shareholders' funds and the related notes 1 to 24. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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.

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.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
Manchester
28 July 2005

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2005

	Notes	2005 £000	2004 £000
Turnover	2	163,360	27,492
Operating costs	3	<u>(148,534)</u>	<u>(24,888)</u>
Operating profit		14,826	2,604
Net interest receivable	6	<u>815</u>	<u>40</u>
Profit on ordinary activities before taxation	7	15,641	2,644
Tax charge on profit on ordinary activities	8	<u>(4,750)</u>	<u>(794)</u>
Profit on ordinary activities after taxation		10,891	1,850
Equity dividends	9	<u>(10,500)</u>	<u>(1,850)</u>
Retained profit for the year, transferred to reserves		<u>391</u>	<u>-</u>

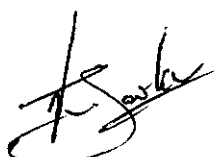
All activities relate to continuing operations. The company was incorporated on 24 November 2000 and started trading on 1 February 2004, therefore, the profit and loss account to 31 March 2004 represents only two months actual trading.

No statement of total recognised gains and losses is given as all gains and losses for the current and preceding year passed through the profit and loss account.

BALANCE SHEET
At 31 March 2005

	Notes	31 March 2005		31 March 2004	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		2,724		1,312
Current assets					
Debtors	11	22,662		11,168	
Cash in hand and in bank		<u>21,024</u>		<u>20,892</u>	
		43,686		32,060	
Creditors: amounts falling due within one year	12	<u>(42,250)</u>		<u>(31,828)</u>	
Net current assets			<u>1,436</u>		<u>232</u>
Total assets less current liabilities			4,160		1,544
Creditors: amounts falling due after more than one year	13		(3,519)		(1,208)
Provisions for liabilities and charges	14		<u>-</u>		<u>(86)</u>
Net assets			<u>641</u>		<u>250</u>
Capital and reserves					
Called up share capital	16		250		250
Profit and loss account	17		<u>391</u>		<u>-</u>
Equity shareholder's funds			<u>641</u>		<u>250</u>

These financial statements were approved by the Board of directors on 28 July 2005 and were signed on its behalf by:



Vernon Barker
Director

CASH FLOW STATEMENT**For the year ended 31 March 2005**

	Notes	2005		2004	
		£000	£000	£000	£000
Net cash inflow from operating activities	21(a)		10,768		21,970
Net cash inflow from returns on investments and servicing of finance	21(b)		815		40
Taxation paid			(2,968)		-
Capital expenditure and financial investment	21(c)		(1,633)		(1,368)
Equity dividends paid			(6,850)		-
			<u>132</u>		<u>20,642</u>
Financing					
Issue of share capital			-		250
Net cash inflow from financing			-		250
Increase in cash			<u>132</u>		<u>20,892</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**For the year ended 31 March 2005**

	Notes	2005	2004
		£000	£000
Increase in cash in year/period and movement in net funds in year/period		132	20,892
Net funds at beginning of year/period	22	20,892	-
Net funds at the end of year/period	22	<u>21,024</u>	<u>20,892</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 March 2005

	2005 £000	2004 £000
Profit for the financial year/period	10,891	1,850
Issue of share capital	-	250
Dividends paid and proposed on equity shares	(10,500)	(1,850)
Net addition to shareholders' funds	<u>391</u>	<u>250</u>
Shareholders' funds at beginning of year/period	250	-
Shareholders' funds at end of year/period	<u><u>641</u></u>	<u><u>250</u></u>

NOTES TO THE ACCOUNTS

31 March 2005

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

(a) Basis of preparation

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

(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) Turnover, including government grants and subsidies

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Financial support receivable from the Strategic Rail Authority 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.

(e) Taxation

The charge for taxation is based on the profit for the year and is provided at amounts to be paid using the tax rate and laws that have been enacted or substantially 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.

NOTES TO THE ACCOUNTS
31 March 2005

1 Principal accounting policies (continued)

(e) Taxation (cont.)

Provision is made for deferred tax on all timing differences except those arising from the revaluation of fixed assets, for which there is no binding agreement to sell property gains if it is anticipated that rollover relief will be available, and on the undistributed profits of overseas subsidiaries, associates or joint ventures. 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 provision is not discounted to net present value.

(f) Pension costs

Retirement benefits are provided for most employees of the company by means of a defined benefit pension scheme. This is funded by contributions from the company and employees. The company's contributions are determined by an independent actuary and the overall level of funding has been agreed with the Strategic Rail Authority. The difference between the charge to the profit and loss account and the contributions paid by the company is shown as an asset or liability in the balance sheet and the tax effect of this timing difference is included in deferred taxation.

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 activities within the United Kingdom.

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

Turnover can be analysed as follows:

	2005 £000	2004 £000
Passenger services	67,499	10,404
Revenue grant	75,680	14,390
Other	20,181	2,698
	<u>163,360</u>	<u>27,492</u>

NOTES TO THE ACCOUNTS
31 March 2005

3 Operating costs

	2005 £000	2004 £000
Station & track access and facilities	62,610	9,236
Staff costs	31,050	4,182
External charges	54,653	11,414
Depreciation	407	56
Profit on disposal of fixed assets	(186)	-
	<u>148,534</u>	<u>24,888</u>

4 Employee numbers and costs

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

	2005 No	2004 No
Operations	336	53
Customer services	463	70
Other	76	10
	<u>875</u>	<u>133</u>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	27,133	3,466
Social security costs	1,951	254
Other pension costs	1,966	462
	<u>31,050</u>	<u>4,182</u>

NOTES TO THE ACCOUNTS
31 March 2005

5 Directors' remuneration

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

	2005 £000	2004 £000
Aggregate emoluments (excluding pension contributions)	504	48
Company pension contributions to defined benefit scheme	39	5
	<u>543</u>	<u>53</u>

Four directors (2004: two directors) exercised share options during the year and nine directors (2004: seven directors) became entitled to receive shares under the FirstGroup plc long-term incentive plan. Retirement benefits accrue to nine directors (2004: seven directors) under defined benefit schemes.

The emoluments of the highest paid director amounted to:

	2005 £000	2004 £000
Aggregate emoluments	<u>215</u>	<u>21</u>
Defined benefit scheme	14	1
Accrued pension at year end	9	7
Accrued lump sum at end of year	<u>7</u>	<u>6</u>

The highest paid director exercised 482 share options (2004: nil) during the year and became entitled to receive 30,150 shares (2004: 26,817) under the FirstGroup long term incentive plan.

Details of directors' options are given in the Directors' report.

6 Net interest receivable

	2005 £000	2004 £000
Income from short term deposits	<u>815</u>	<u>40</u>

NOTES TO THE ACCOUNTS
31 March 2005

7 Profit on ordinary activities before taxation

	2005 £000	2004 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration		
- Audit fee	22	22
- Non audit fees	25	-
Depreciation		
- owned assets	407	56
Profit on disposal of fixed assets	(186)	-
Rentals payable under operating leases		
- plant and machinery	25,312	3,632
- other operating leases	59,779	8,303

8 Tax on profit on ordinary activities

	2005 £000	2004 £000
<i>Current taxation</i>		
- UK corporation tax charge for the year	4,698	708
- Adjustment in respect of prior years	208	-
Total current taxation	4,906	708
<i>Deferred taxation</i>		
- Origination and reversal of timing differences	(22)	86
- Adjustment in respect of prior years	(134)	-
Total deferred taxation (note 14)	(156)	86
Total tax charge on profit on ordinary activities	4,750	794

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 30% (2004: 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:

	2005 %	2004 %
Standard rate of taxation	30.0	30.0
Factors affecting charge:		
- Expenses not deductible for tax purposes	0.6	-
- Capital allowances in excess of depreciation	(0.1)	(3.2)
- Other timing differences	(0.4)	-
- Prior years' tax charge	1.3	-
Current taxation rate for the year	31.4	26.8

NOTES TO THE ACCOUNTS
31 March 2005

9 Equity dividends

	2005 £000	2004 £000
Ordinary shares of £1 each		
Interim paid £20 per share (2004: nil)	5,000	-
Final proposed £22 per share (2004: £7.40 per share)	5,500	1,850
	<u>10,500</u>	<u>1,850</u>

10 Tangible fixed assets

	Other plant and equipment £000
Cost	
At 1 April 2004	1,368
Additions	2,745
Disposals	(1,201)
At 31 March 2005	<u>2,912</u>
Accumulated depreciation	
At 1 April 2004	56
Charge for year	407
Charged on disposals	(275)
At 31 March 2005	<u>188</u>
Net book value	
At 31 March 2005	<u>2,724</u>
At 31 March 2004	<u>1,312</u>

11 Debtors

	2005 £000	2004 £000
Amounts due within one year		
Trade debtors	18,110	8,005
Amounts due from related parties (note 23)	1,191	-
Other debtors	1,442	3,002
Deferred tax asset (note 15)	70	-
Other prepayments and accrued income	1,849	161
	<u>22,662</u>	<u>11,168</u>

NOTES TO THE ACCOUNTS

31 March 2005

12 Creditors

	2005 £000	2004 £000
Amounts falling due within one year		
Trade creditors	8,515	17,464
Amounts owed to related parties (note 23)	9,439	3,338
Corporation tax	2,646	708
Other tax and social security	626	469
Other creditors	1,722	2,150
Accruals and deferred income	19,302	7,699
	<u>42,250</u>	<u>31,828</u>

13 Creditors

	2005 £000	2004 £000
Amounts falling due after more than one year		
Accruals and deferred income	<u>3,519</u>	<u>1,208</u>

14 Provisions for liabilities and charges

	Deferred Tax
	2005 £000
At 1 April 2004	86
Credited to the profit and loss account	(156)
At 31 March 2005	<u>(70)</u>

Details of the deferred tax balance are given in note 15. The closing balance is included in note 12 within Debtors.

15 Deferred taxation

The deferred tax (asset)/provision consists of the following amounts:

	2005 £000	2004 £000
Capital allowances in excess of depreciation	(8)	86
Other timing differences	(62)	-
Deferred tax (asset)/provision	<u>(70)</u>	<u>86</u>

NOTES TO THE ACCOUNTS
31 March 2005

16 Called up share capital

	2005 £000	2004 £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>

17 Profit and loss account

	£000
At 1 April 2004	-
Retained profit for the year	<u>391</u>
At 31 March 2005	<u>391</u>

18 Commitments

Capital expenditure

The company had no capital commitments at 31 March 2005 or at 31 March 2004.

Operating leases

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

	2005		2004	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within two to five years	-	11,841	-	11,412
More than five years	199	48,989	199	52,452
	<u>199</u>	<u>60,830</u>	<u>199</u>	<u>63,864</u>

19 Contingent liabilities

FirstGroup plc and Keolis S.A. have jointly provided performance bonds of £10.4 million (2004: £10.4 million) and a letter of credit facility of £3 million (2004: £3 million), backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the Franchise obligations of First/Keolis TransPennine Limited.

NOTES TO THE ACCOUNTS
31 March 2005

20 Pension scheme

The company operates a defined benefit pension scheme and a defined contribution scheme. All employees are offered membership of both schemes and may elect whichever they prefer.

The defined benefit scheme has two sections. Those employees that transferred under TUPE from Arriva Trains Northern are in the TPE former ATN section and those that transferred from North Western Trains are in the TPE former North Western Trains section. Both sections are part of the Railway Pension Scheme. New employees who voluntarily join the Company are entered in to the section that was previously applicable to their place of work.

A formal actuarial valuation of the two sections is currently being done as at 31 December 2004. It is expected to be completed in September 2005.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The schemes' assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme.

The total pension cost in the year was £1,966,000 (2004: £462,000) all of which relates to the defined benefit scheme. Outstanding employer pension contributions at 31 March 2005 were £313,394 (2004: £186,629).

Financial Reporting Standard 17 (Retirement Benefits) Disclosure

The additional disclosures required by FRS 17 during the transitional period for the defined benefit scheme are set out below. They are based on the most recent completed actuarial valuation in December 2001, which have been updated by independent professional qualified actuaries to take account of the requirements of FRS17.

No liability will be borne beyond the period of the franchise since the franchise agreement provides that the Franchise Operator shall have no liability for any deficit in the funding once the franchise has terminated, provided required contributions have been paid and the franchise terms have not been breached.

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

	2005	2004
	£000	£000
Rate of increase in salaries	4.1%	4.1%
Rate of increase of pensions in payment	2.6%	2.6%
Discount rate	5.5%	5.7%
Inflation assumption	2.6%	2.6%

NOTES TO THE ACCOUNTS

31 March 2005

20 Pension scheme (continued)

The fair value of the scheme's assets, the present value of the liabilities and the expected rates of return as at 31 March 2005 were:

	2005		2004	
	Expected rate of return	Value £000	Expected rate of return	Value £000
Equities	8.8%	24,000	8.8%	20,500
Bonds	4.7%	3,200	4.7%	1,800
Property	6.75%	2,200	6.7%	2,500
Cash	3.6%	2,300	-	-
		<u>31,700</u>		<u>24,800</u>

	2005 £000	2004 £000
Total market value of assets	<u>31,700</u>	<u>24,800</u>
Actuarial value of scheme liabilities	(35,900)	(31,600)
Employees' share of deficit	<u>1,700</u>	<u>2,700</u>
Adjusted value of scheme liabilities	<u>(34,200)</u>	<u>(28,900)</u>
Deficit in the scheme	(2,500)	(4,100)
Related deferred tax asset	<u>750</u>	<u>1,230</u>
Net pension liability	<u>(1,750)</u>	<u>(2,870)</u>

The Franchise Agreement states that no liability will be borne beyond the period of the franchise. If, however, the scheme were accounted for as a defined benefit scheme under FRS 17 the company's net assets and profit and loss account at 31 March 2005 would have been as follows:

	31 March 2005 £000	31 March 2004 £000
Net assets	641	250
Pension liability	<u>(1,750)</u>	<u>(2,870)</u>
Net liabilities on FRS 17 basis	<u>(1,109)</u>	<u>(2,620)</u>

	31 March 2005 £000	31 March 2004 £000
Profit and loss account excluding pension liability	391	-
Pension liability	<u>(1,750)</u>	<u>(2,870)</u>
Profit and loss account on FRS 17 basis	<u>(1,359)</u>	<u>(2,870)</u>

NOTES TO THE ACCOUNTS
31 March 2005

20 Pension scheme (continued)

Analysis of amount that would have been charged to operating profit under FRS 17:

	2005	2004
	£000	£000
Current service costs	2,500	300
Past service costs	-	-
Gain/(loss) on settlements and curtailments	-	-
Total operating charge	<u>2,500</u>	<u>300</u>

Analysis of amount that would have been credited to net finance charges under FRS 17:

	2005	2004
	£000	£000
Expected return on pension scheme assets	(1,300)	(200)
Interest on pension scheme liabilities	1,100	200
Net return	<u>(200)</u>	<u>-</u>

Analysis of the actuarial loss that would have been in the statement of total recognised gains and losses ("STRGL"):

	2005	2004
	£000	£000
Actual return less expected return on pension scheme assets	700	100
Experience gains and losses arising on scheme liabilities	1,500	100
Changes in assumptions underlying the present value of scheme liabilities	(900)	(1,800)
Actuarial gain/(loss) recognised in STRGL	<u>1,300</u>	<u>(1,600)</u>

Movement in scheme deficit during the year:

	2005	2004
	£000	£000
Deficit at 1 April 2004 and 1 February 2004	(4,100)	(2,300)
Movement in year/period:		
Current service cost	(2,500)	(300)
Contributions	2,600	100
Past service costs	-	-
Net finance income	200	-
Actuarial gain	1,300	(1,600)
Deficit at 31 March 2005 and 31 March 2004	<u>(2,500)</u>	<u>(4,100)</u>

NOTES TO THE ACCOUNTS

31 March 2005

20 Pension scheme (continued)

History of experience gains and losses

	2005	2004
Difference between the expected and actual return on scheme assets:		
Amount (£000)	700	100
Percentage of scheme assets (%)	2.1%	0.8%
Experience gains on scheme liabilities:		
Amount (£000)	1,500	100
Percentage of the present value of scheme liabilities (%)	4.2%	0.3%
Total actuarial loss in the statement of total recognised gains and losses:		
Amount (£000)	1,300	(1,600)
Percentage of the present value of scheme liabilities (%)	3.7%	5.1%

21 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	2005 £000	2004 £000
Operating profit	14,826	2,604
Depreciation and other amounts written off tangible fixed assets	407	56
Profit on sale of fixed assets	(186)	-
Increase in debtors	(11,424)	(11,168)
Increase in creditors	7,145	30,478
Net cash inflow from operating activities	<u>10,768</u>	<u>21,970</u>
(b) Returns on investments and servicing of finance	2005 £000	2004 £000
Interest received	815	40
Net cash inflow from returns on investments and servicing of finance	<u>815</u>	<u>40</u>
(c) Capital expenditure and financial investment	2005 £000	2004 £000
Purchase of tangible fixed assets	(2,745)	(1,368)
Sale of tangible fixed assets	1,112	-
Net cash outflow from capital expenditure and financial investment	<u>(1,633)</u>	<u>(1,368)</u>

NOTES TO THE ACCOUNTS
31 March 2005

22 Analysis of net debt

	2005 £000	2004 £000
Cash at bank and in hand	<u>21,024</u>	<u>20,892</u>

23 Related party transactions

The following companies are deemed to be related parties.

FirstGroup plc, which is one of the ultimate controlling parties, is deemed to be a related party by virtue of the fact that its interest in the company is under 90%. There were transactions relating to affiliate service agreements in the year to 31 March 2005.

Via GTI UK Limited, a wholly owned subsidiary of Keolis SA, which is one of the ultimate controlling parties is deemed to be a related party by virtue of the fact that its interest in the company is under 90%. There were transactions relating to affiliate service agreements in the year to 31 March 2005.

North Western Trains Company Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There was trading between First/Keolis TransPennine Limited and North Western Trains Company Limited as a result of the passenger rail services operated on behalf of North Western Trains Company Limited.

Great Western Trains Company Limited, whose ultimate parent company is FirstGroup plc, is deemed to be a related party by virtue of the fact that it manages the transactions' processing for the Company. There were service charges invoiced in the year to 31 March 2005, together with costs relating to the set up of the business.

Great Western Holdings Limited is a wholly owed subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to the set up of the organisation in the year to 31 March 2005.

First Bristol 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 2005.

Hull Trains Company Limited is a subsidiary of FirstGroup plc and is, therefore, deemed to be a related party. There were transactions relating to affiliate service agreements in the year to 31 March 2005.

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 2005.

NOTES TO THE ACCOUNTS
31 March 2005

23 Related party transactions (continued)

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

	2005 £'000	2004 £'000
FirstGroup plc		
Affiliate service agreements	(2,339)	(501)
Keolis SA		
Affiliate service agreements	(322)	(2,640)
Via GTI UK Limited		
Affiliate service agreements	(94)	-
Great Western Trains Company Limited		
Transactions processing & set up costs	(1,068)	-
Great Western Holdings Limited		
Set up costs	(1,871)	(4,392)
Hull Trains Company Limited		
Affiliate service agreements	149	-
First Bristol Limited		
Rail replacement buses	(1,097)	-
North Western Trains Company Limited		
Provision of passenger rail services	4,050	(3,066)
FirstInfo Limited		
Provision of customer services	(343)	(43)
Great Eastern Railway Limited		
Set up costs	-	(108)
Total	<u>(2,935)</u>	<u>(10,750)</u>

NOTES TO THE ACCOUNTS
31 March 2005

23 Related party transactions (continued)

The following amounts were outstanding at the end of the period in relation to related party transactions:

	2005 £'000	2004 £'000
FirstGroup plc	(5,865)	(1,524)
Keolis SA	(2,475)	(888)
Via GTI UK Limited	(2)	-
North Western Trains Company Limited	1,179	(441)
Great Western Holdings Limited	(286)	(334)
Great Western Trains Company Limited	(109)	-
Hull Trains Company Limited	12	-
First Bristol Limited	(675)	-
Great Eastern Railway Limited	-	(108)
FirstInfo Limited	(27)	(43)
Total	(8,248)	(3,338)

24 Ultimate and immediate parent company and controlling party

The immediate parent company is First/Keolis Transpennine Holdings Limited which is registered in England and Wales. The ultimate parent companies are FirstGroup plc, which is incorporated in Great Britain and registered in Scotland, and Via GTI 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 3rd Floor, Macmillan House, Paddington Station, London, W2 1FG. Copies of the accounts of Via GTI UK Limited can be obtained from Blackfriars Foundry, 156 Blackfriars Road, London, SE1 8EN.