Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

31 March 2013

First Capital Connect Limited

Report and financial statements 2013

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First Capital Connect Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2013

Principal activity

First Capital Connect Limited (FCC) brings together the Thameslink (TL) and Great Northern (GN) routes as a single franchise providing rail services from Brighton to Bedford and King's Cross to King's Lynn spanning the heart of the South East of England and covering two of the country's largest airports, Luton and Gatwick FCC is a wholly owned subsidiary of FirstGroup plc

Business review and future outlook

FCC runs approximately 105m passenger journeys a year and carries around 175,000 people every weekday, servicing 104 stations of which 78 are operated by FCC FCC network covers 582km of track The company's priority is to provide a straightforward, clean and welcoming environment for passengers and staff, whilst striving to improve the quality, punctuality and reliability of the service and maintain the current high safety standards

During the year we have continued to improve our performance across the company, engage and communicate more with our customers and stakeholders, improve engagement with our people and prepare for and deliver the major change programmes

At FCC, we continue to focus on performance where our Public Performance Measurement (PPM) of reliability and punctuality stands at 88 3% on a Moving Annual Average (MAA) basis, a reduction of 1 6% from last year During the London 2012 Games we recorded our highest-ever PPM score during the franchise with 94 6% However, the main reason for the overall reduction has been significant disruption caused by infrastructure problems, with a number of incidents relating to the failure of the overhead line equipment supplying power to our trains during the winter We are in dialogue with Network Rail over more effective partnership working going forwards, for example on more efficient engineering possessions for longer term network improvements

We continue to work closely with our industry partners on the Thameslink Programme of major improvement works which will deliver much needed capacity on the key cross-London route During the year, a significant highlight was the resumption of full service between Brighton and Bedford throughout the day, evening and at weekends following the completion of three and a half years of engineering work Major improvements were made with longer 12-car trains introduced at peak times, later trains and new services

We continue to invest in better customer information and customer service training and recognise that there is more to be done to raise customer satisfaction We are also improving the way we manage disruption and deliver our service on both the TL and GN routes This year we had a proactive approach to managing stakeholder relations and we are now seeing improved advocacy

Profit on ordinary activities before interest was £5 1m (2012 £3 6m) which was ahead of expectations Passenger receipts showed reported growth of 9 9% over the year (2013 £512 7m versus 2012 £466 5m) The profit improvement has arisen in spite of all the challenges resulting from the disruptions and changes to the FCC network, including the effects of both the Thameslink Programme on the TL route and the High Level Output Specification (HLOS) on the GN route, and the effect of the Olympics and Paralympics We have continued to respond to the continuing weakness in the underlying revenue growth and increased cost pressures through careful management of costs as well as building on all the successful initiatives of the last couple of years

At the end of the year the Department for Transport (DfT) announced that the end date for the FCC franchise would be extended to 31 March 2014 FCC will continue to focus on revenue generation and on the addressable cost base in the year ahead The revenue support from the DfT continues to considerably mitigate the impact of the economic environment on passenger revenues

Principal risks and uncertainties

Rail franchise agreements

The company is required to comply with certain conditions as part of its rail franchise agreement If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the rail franchise

Directors' report

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 its season ticket bond Compliance with franchise conditions are closely managed and monitored on a four weekly basis by senior management and procedures are in place to minimise the risk of non-compliance

Legislation and regulation

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

Labour costs and employee relations

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

Electricity costs

Electricity prices can be influenced significantly by international, political and economic circumstances To mitigate the risks of rising electricity costs the company in conjunction with the Association of Train Operating Companies requests Network Rail Infrastructure Limited to regularly enter into forward contracts to buy electricity at fixed prices In addition the company seeks to limit the impact of unexpected electricity price rises through efficiency and pricing measures

Terrorism, man-made and natural disasters

Terrorist acts and the public's concerns about potential attacks could adversely affect demand for our services More particularly if the company were 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 Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of employees so that they can respond effectively to any perceived threat or incident

Information Technology

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

Customer Service

The company's revenues are at risk if it does not continue to provide the level of service expected by customers On-going engagement with customers and community stakeholders takes place across the company, including through 'Meet the manager' events, customer panels, consultations and local partnerships The Board also monitors in detail a series of customer service KPIs to ensure strict targets are being met

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 the operations of the company The potential impact of this is reduced on the company due to the existence of the revenue support arrangements

First Capital Connect Limited

Directors' report

Financial matters

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

The directors have not recommended payment of a final dividend (2012 £nil) An interim dividend of £10m was paid in the year (2012 £5m)

Supplier payment policy

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 A number of significant purchases such as commitments under certain operating leases are paid by direct debit At 31 March 2013 the company had 35 days' purchases outstanding (2012 28 days)

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

Directors

The directors who held office throughout the year and subsequent are as follows

David Gausby	
Hugh Clancy	
Clive Burrows	
Neal Lawson	(resigned 7 June 2013)
Christopher Cornthwaite	
David Statham	
Jacqueline Townsend	
Laura Dunley	
Michael Barker	
Jonathan Bridgewood	
Lee Archer	
Vernon Barker	
Keith Jipps	

Directors appointed during the year None

Employee involvement

Communication with employees is effected through a blended communications approach This includes regular briefing and negotiating meetings between the directors, the senior management and employees directly or with employee representatives on the central and depot negotiating committees The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests We also hold regular focus groups on pertinent issues Our annual employee survey allows us to receive direct feedback from the employees in terms of their engagement with the business This then leads into our action plans to build on our strengths and to address any weaknesses Our reward and recognition schemes also seek to increase employee involvement

First Capital Connect Limited

Directors' report

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies 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

Going concern

At 31 March 2013 the company has ring fenced cash of £95,432,000 and net assets of £10,382,000 The directors have considered the going concern assumption given the current economic climate, the franchise extension to 31 March 2014 confirmed by the DfT and the DfT's published rail franchise schedule, which indicates a potential September 2014 franchise end date, and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future, being at least 12 months from the date of approving these financial statements The directors have considered the company forecasts and the receipt of a financial commitment from the parent company in reaching this conclusion

The parent company has provided the directors of the company with a written letter of support, which is legally binding, confirming that it will make available such funds as may be required to enable the company to meet its obligations for a period of at least 12 months from the signing of these financial statements The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support

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 persons who is a director at the date of approval of this report confirms that

- as far as the director is aware, there is no relevant audit information of which the company's auditor is 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Auditor

The company has passed an elective resolution dispensing with the requirement to appoint an auditor annually Deloitte LLP have indicated their willingness to continue as auditor of the company and are therefore deemed to be reappointed for a further term

Approved by the Board of Directors
And signed by order of the board

C J Cornthwaite
Director

50 Eastbourne Terrace
Paddington
London
W2 6LG

20 June 2013

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) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Independent auditor's report to the members of First Capital Connect Limited

We have audited the financial statements of First Capital Connect Limited for the year ended 31 March 2013 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the reconciliation of movements in shareholder's funds 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 auditor

As more fully explained in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed in the Companies Act 2006

In our opinion the information 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 First Capital Connect 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

Mark Tolley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
20 June 2013

First Capital Connect Limited

Profit and loss account
Year ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Turnover	2	604,332	547,755
Operating costs (net)	3	(599,269)	(544,165)
Profit on ordinary activities before interest		5,063	3,590
Net interest receivable	7	5,201	3,759
Profit on ordinary activities before taxation	8	10,264	7,349
Tax charge on profit on ordinary activities	9	(2,424)	(2,420)
Profit for the year	18	7,840	4,929

All activities relate to continuing operations

Statement of total recognised gains and losses
Year ended 31 March 2013

	2013 £'000	2012 £'000
Profit for the financial year	7,840	4,929
Actuarial (loss)/gain relating to the pension scheme	(690)	11,133
UK deferred taxation attributable to actuarial (loss)/gain	143	(2,924)
Total recognised gains for the year	7,293	13,138

First Capital Connect Limited

Balance sheet
At 31 March 2013

	Notes	£'000	2013 £'000	£'000	2012 £'000
Fixed assets					
Intangible assets	10		-		-
Tangible assets	11		7,098		13,086
			7,098		13,086
Current assets					
Stocks	12	5,003		5,394	
Debtors	13	44,015		43,343	
Cash at bank and in hand	14	95,432		109,552	
		144,450		158,289	
Creditors amounts falling due within one year	15	(139,161)		(155,271)	
Net current assets			5,289		3,018
Total assets less current liabilities			12,387		16,104
Net assets excluding pension liability			12,387		16,104
Pension liability	20		(2,005)		(3,152)
Net assets			10,382		12,952
Financed by					
Capital and reserves					
Called up share capital	17		-		-
Profit and loss account	18		10,382		12,952
Shareholder's funds			10,382		12,952

The financial statements of First Capital Connect Limited registered number 05281077 were approved by the Board of Directors on 20 June 2013

Signed on behalf of the Board of Directors

C J Cornthwaite
Director

First Capital Connect Limited

Reconciliation of movements in shareholder's funds
For the year ended 31 March 2013

	2013 £'000	2012 £'000
Profit for the financial year	7,840	4,929
Other recognised (losses)/gains relating to the year (net)	(547)	8,209
Dividends paid	(10,000)	(5,000)
Share based payments	137	151
Net (reduction)/addition to shareholder's funds	(2,570)	8,289
Opening shareholder's funds	12,952	4,663
Closing shareholder's funds	10,382	12,952

Notes to the financial statements
Year ended 31 March 2013

1. **Principal accounting policies**

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

Basis of preparation

The financial statements have been prepared on the historical cost basis and on the going concern basis as described in the going concern statement in the Directors' Report on page 4

Cash flow statement

The company is a wholly owned subsidiary of FirstGroup plc, a company registered in Scotland Accordingly, the company has taken advantage of the exemption offered by Financial Reporting Standard 1, enabling it not to produce a cash flow statement as the parent company has included a consolidated cash flow statement within its group financial statements

Tangible fixed assets and depreciation

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 or the duration of the franchise whichever is shorter as follows

Heavy maintenance examinations	3 years straight line
Other plant and equipment	3 to 10 years straight line

Intangible fixed assets and depreciation

The intangible asset represents the part of the economic benefit derived from the franchise agreement that is realised as a result of recognising our share of the rail pension deficit

Intangible fixed assets are stated at cost, net of amortisation and any provision for impairment

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

Intangible pension asset	6 years straight line

Capital grants

Capital grants relating to the property, plant and equipment are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned

Leases and hire purchase

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

Government grants and subsidies

Amounts receivable for tendered services and concessionary fare schemes are included in turnover

Stocks

Stocks are valued at the lower of cost and net realisable value Provision is made for obsolete and slow moving or defective items where appropriate

1 **Principal accounting policies (continued)**

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date

The taxation liability is reduced wholly or in part by the surrender of losses by group undertakings The tax benefits arising from group relief are recognised in the financial statements of the surrendering undertaking

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 not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Pension costs

Company specific schemes

The company operates a defined benefit scheme which is held in separately administered funds The amounts charged to profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments They are included as part of staff costs 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 within net 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

Turnover

Turnover includes franchise agreement receipts from the DfT and amounts receivable under franchise revenue support arrangements Payments to the DfT for amounts due under the terms of the franchise are included in operating costs Turnover also includes amounts attributable to the company predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts Where season tickets are issued in excess of one week's duration, the attributable share of income is deferred within creditors and is recognised in the profit and loss account over the period covered by the season ticket

Share based payments

The company's parent issues equity-settled share based payments to certain employees Equity-settled share based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of Shares that will eventually vest and is adjusted for the effects of non-market based vesting conditions

Fair value is measured by 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

Notes to the financial statements
Year ended 31 March 2013

2. Turnover and profit on ordinary activities before taxation

Turnover represents the amounts receivable for services supplied to customers during the year and revenue support receivable from the Department for Transport

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 £45 9m (2012 £33 3m) of revenue support was receivable in the year

3. Operating costs

	Notes	2013 £'000	2012 £'000
Raw materials and consumables		11,143	11,098
Staff costs	4	114,959	107,272
Other external charges		235,305	227,114
Franchise payments		228,245	188,768
Depreciation and other amounts written off tangible and intangible fixed assets		11,271	10,543
Capital grants amortisation		(1,654)	(630)
		599,269	544,165

4 Employee numbers and costs

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

	2013 No.	2012 No.
Operations	798	777
Engineering	551	542
Customer services	920	879
Administration	150	137
	2,419	2,335

The aggregate payroll costs of these persons were as follows

	2013 £'000	2012 £'000
Wages and salaries	96,529	90,345
Social security costs	7,903	7,344
Other pension costs	10,527	9,583
	114,959	107,272

5. Directors' remuneration

Four directors (2012 4) received remuneration from FirstGroup plc, the ultimate parent company, and First Rail Holdings Ltd, the immediate parent company, in the current and prior years, details of which are disclosed in their report and accounts The directors have not performed any qualifying services on behalf of the company during the current and previous year Details of retirement benefits accruing to the directors under the group defined benefit schemes are detailed in the financial statements of FirstGroup plc

The remuneration of the directors during the year paid by the company was as follows

	2013 £'000	2012 £'000
Aggregate emoluments (excluding pension contributions)	1,311	1,426
Compensation for loss of office	-	57

Directors' emoluments include salary, fees, bonuses, sums paid by way of expense allowances subject to UK income tax and the money value of other non-cash benefits and exclude share options, company pension contributions and payments made under long-term incentive schemes

9 (2012 9) directors are members of a defined benefit pension scheme

The emoluments of the highest paid director amounted to

	2013 £'000	2012 £'000
Aggregate emoluments	327	317
Defined benefit scheme		
Accrued pension at end of year	12	8
Accrued lump sum at end of year	7	5

6. Share based payments

Save as you earn (SAYE)

The company's ultimate parent company operates a HM Revenue & Customs approved savings related share option scheme Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007, December 2008, December 2009, December 2010, December 2011 and December 2012 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 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

Notes to the financial statements
Year ended 31 March 2013

6. Share based payments (continued)

Details of the share options outstanding during the year are as follows

	SAYE December 2012 Options No	SAYE December 2011 Options No.	SAYE December 2010 Options No	SAYE December 2009 Options No.
Outstanding at beginning of the year	-	2,907,764	2,669,280	2,336,168
Granted during the year	2,986,775	-	-	-
Exercised during the year	(11)	(54)	-	(819)
Lapsed during the year	(29,664)	(377,042)	(384,479)	(242,694)
Outstanding at the end of the year	**2,957,100**	**2,530,668**	**2,284,801**	**2,092,655**
Exercisable at the end of the year	-	-	-	2,092,655
Weighted average exercise price (pence)	143 9	271 5	319 0	310 0
Weighted average share price at date of exercise (pence)	193 0	204 9	N/A	197 3

The inputs into the Black-Scholes model are as follows

	SAYE 2012 Dec 2012	SAYE 2011 Dec 2011
Weighted average share price (pence)	188 90	319 20
Weighted average exercise price (pence)	143 90	271 50
Expected volatility	35%	35%
Expected life	3 years	3 years
Risk-free rate	0 4%	0 6%
Expected dividend yield	12 5%	7 0%

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, LTIP and deferred share plans exclude any allowance for the pre-vesting forfeitures

The group used the inputs noted above to measure the fair value of the new share options

The group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme The company has recognised a total expense of £137,000, (2012 £151,000) relating to equity-settled share based payment transactions

Notes to the financial statements
Year ended 31 March 2013

7 Net interest receivable

	2013 £'000	2012 £'000
Interest payable and similar charges		
Amounts payable to other group undertakings	(64)	(87)
Interest on pension scheme liabilities	(6,275)	(7,766)
	(6,339)	(7,853)
Interest receivable and similar income		
Bank interest	447	508
Expected return on pension scheme assets	11,093	11,104
	11,540	11,612
Net interest receivable	5,201	3,759

8. Profit on ordinary activities before taxation

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of company's annual accounts	100	100
- Deloitte LLP non-audit fee for other services	4	4
Depreciation and other amounts written off tangible fixed assets		
- owned assets	11,271	9,108
Amortisation of intangible asset	-	1,435
Rentals payable under operating leases		
- plant and machinery	57,522	41,530
- other operating leases	56,102	65,380
Net rental income from property	(1,437)	(1,262)

9 Tax charge on profit on ordinary activities

	2013 £'000	2012 £'000
Current taxation		
- UK corporation tax	2,575	2,182
- Adjustment in respect of prior year	129	719
Total current taxation	2,704	2,901
Deferred taxation		
- Origination and reversal of timing differences	(701)	(155)
- Adjustment in respect of prior year	(195)	(434)
- Effect of decrease in tax rate on opening deferred tax balance	75	121
	(821)	(468)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	514	(61)
- Effect of decrease in tax rate on opening deferred tax balance	27	48
	541	(13)
Total deferred taxation	(280)	(481)
Total tax charge on profit on ordinary activities	2,424	2,420

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 24% (2012 26%) 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

	2013 %	2012 %
Standard rate of taxation	24 0	26 0
Factors affecting charge		
- Capital allowances less than depreciation	22 3	2 3
- Other timing differences	(21 3)	1 4
- Adjustment in respect of prior year	1 3	9 8
Current taxation rate for the year	26 3	39 5

During the period the UK government enacted legislation to reduce the main rate of UK corporation tax to 23% with effect from 1 April 2013 The impact of this rate reduction has reduced the deferred tax liability on UK timing differences

It was expected that further legislation would be included within Finance Bill 2013 to reduce the rate further to 22% for the financial year commencing 1 April 2014 However, the government has subsequently announced that the rate will instead be reduced to 21% from 1 April 2014 and then again to 20% from 1 April 2015 None of these expected future rate reductions have been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The effective tax rate for the period to 31 March 2014 and 31 March 2015 is expected to reduce accordingly

10. Intangible fixed assets

	Pension asset £'000
Cost	
At 1 April 2012 and 31 March 2013	8,600
Amortisation	
At 1 April 2012	8,600
Charge for year	-
At 31 March 2013	8,600
Net book value	
At 31 March 2013	-
At 31 March 2012	-

First Capital Connect Limited set up an intangible pension asset to the value of £8 6m, equivalent to the value of the deficit under FRS17 on commencement of the franchise, in order to offset the liability arising prior to the franchise term This asset was capitalised and written off on a straight line basis over six years, being the minimum franchise period

11. Tangible fixed assets

	Heavy maintenance examinations £'000	Other plant and equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 1 April 2012	13,936	29,660	3,470	47,066
Additions	3,829	1,057	397	5,283
Transfers	1,902	1,568	(3,470)	-
At 31 March 2013	19,667	32,285	397	52,349
Depreciation				
At 1 April 2012	11,237	22,743	-	33,980
Charge for the year	4,747	6,524	-	11,271
Transfers	-	-	-	-
At 31 March 2013	15,984	29,267	-	45,251
Net book value				
At 31 March 2013	3,683	3,018	397	7,098
At 31 March 2012	2,699	6,917	3,470	13,086

12 Stocks

	2013 £'000	2012 £'000
Spare parts and consumables	5,003	5,394

There is no material difference between the balance sheet value of the stocks and their replacement cost

13. Debtors

		2013 £'000	2012 £'000
Amounts falling due within one year			
Trade debtors		33,185	33,976
VAT		2,961	2,721
Deferred tax asset	**Note 16**	2,422	1,601
Other debtors		164	280
Prepayments and accrued income		5,283	4,765
		44,015	43,343

14. Cash at bank and in hand

	2013 £'000	2012 £'000
Bank deposits	95,432	109,552

Bank deposits are treated as ring-fenced cash Under the terms of the franchise agreement, cash can only be distributed by the company either up to the amount of the retained earnings or the amount determined by prescribed liquidity ratios The ring-fenced cash represents cash which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date

15 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	43,416	46,393
Amounts owed to group undertakings	12,147	26,608
Group tax relief	1,652	2,192
Other tax and social security	2,942	2,777
Other creditors	50,360	49,407
Accruals and deferred income	28,644	27,894
	139,161	155,271

Amounts owed to group undertakings include a loan of £10m (2012 £25m) from FirstGroup plc The loan is repayable on demand to the extent that the company is not in breach of its financial ratios defined in its franchise agreement The interest rate on the loan is LIBOR plus 2 5%

Notes to the financial statements
Year ended 31 March 2013

16 Deferred tax asset

		£'000
As at 1 April 2012		1,601
Credited to profit and loss account		821
At 31 March 2013	Note 13	2,422

The deferred tax asset consists of the following amounts

	2013 £'000	2012 £'000
Capital allowances in excess of depreciation	998	252
Other timing differences	1,424	1,349
Deferred tax asset	2,422	1,601

17. Called up share capital

	2013 £	2012 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

18 Profit and loss account

	£'000
At 1 April 2012	12,952
Share based payments	137
Dividends paid	(10,000)
Retained profit for the year	7,840
Profit and loss reserve excluding pension actuarial movements for the year	10,929
Actuarial loss relating to the pension scheme	(690)
UK deferred taxation attributable to actuarial loss	143
At 31 March 2013	10,382

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2013

19. Commitments

Capital commitments at the end of the year for which no provision has been made are as follows

	2013 £'000	2012 £'000
Contracted for but not provided	1,326	640

Operating leases

Commitments for payments in the next year under operating leases are as follows

	2013		2012	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire				
Within one year	1,592	93,207	-	-
Between two and five years	-	-	1,344	114,089
	1,592	93,207	1,344	114,089

20. Pension scheme

Railways Pension Scheme – First Capital Connect Section

The company is a member of a defined benefit pension scheme, which is funded All eligible employees are offered membership of the Railway Pension Scheme The valuation of the scheme was carried out by independent actuaries at 31 December 2010 in respect of the costs used in these financial statements The actuarial valuation was updated for 31 March 2013, at this date the market value of the scheme's assets totalled £245 9m (2012 £222 1m) The actuarial value of these assets was sufficient to cover 75 2 % (2012 79 2%) of the benefits, which had accrued to the scheme's members

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme The current contribution rate is 10 44% (2012 10 44%) for employees and 15 66% (2012 15 66%) for employers

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of return on investments will be 7 59% per annum, the rate of earnings increase will be 4 23% per annum and the rate of inflation (RPI/CPI) will be 3 2%/2 4%per annum The valuation was made using the projected unit method

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

Notes to the financial statements
Year ended 31 March 2013

20. Pension scheme (continued)

The main financial assumptions used in this update were as follows

	2013 £'000	2012 £'000	2011 £'000
Rate of increase in salaries	3 70%	3 75%	4 2%
Rate of increase of pensions in payment	2 15%	1 75%	2 4%
Rate of increase of pensions in deferment	2 15%	1 75%	2 4%
Discount rate	4 50%	4 65%	5 5%
Inflation assumption - RPI	3 20%	2 75%	3 2%
Inflation assumption – CPI	2 15%	1 75%	2 4%

The assets in the scheme and the expected rate of return were

	Expected rate of return			Value		
	2013	2012	2011	2013 £'000	2012 £'000	2011 £'000
Equities	n/a	n/a	n/a	-	-	-
Bonds	3 75%	4 25%	5 20%	12,133	10,923	10,329
Property	6 50%	6 40%	6 85%	-	-	-
Cash Plus	8 00%	8 40%	8 85%	189,018	172,766	163,159
Private Equity	8 00%	8 65%	9 00%	30,337	27,420	24,664
Other	6 96%	7 72%	7 50%	14,384	11,019	12,121
				245,872	222,128	210,273

The Railways Pension Scheme changed the asset allocation during July 2010 with equities held as part of a growth fund called "Cash Plus", which invests in different return seeking assets

The balance sheet position for the company

	2013 £'000	2012 £'000	2011 £'000
Total fair value of assets	245,872	222,128	210,273
Present value of scheme liabilities	(327,119)	(280,505)	(248,534)
Deficit in the scheme	(81,247)	(58,377)	(38,261)
Rail franchise adjustment	46,436	31,198	6,706
Adjustment for employee share of deficit	32,208	23,032	15,095
Liability recognised in balance sheet	(2,603)	(4,147)	(16,460)
Related deferred tax asset	598	995	3,906
Net pension liability	(2,005)	(3,152)	(12,554)

20. Pension scheme (continued)

Analysis of amount charged to operating profit

	2013 £'000	2012 £'000
Current service cost	10,492	9,583
Total operating charge	10,492	9,583

Amounts credited to net finance income

	2013 £'000	2012 £'000
Expected return on pension scheme assets	11,093	11,104
Interest on pension scheme liabilities	(6,275)	(7,766)
Net return credited as finance interest	4,818	3,338

Amounts recognised in the statement of total recognised gains and losses

	2013 £'000	2012 £'000
Actual return less expected return on pension scheme assets	(213)	(8,854)
Experience losses arising on scheme liabilities	(14,265)	(4,143)
Actuarial gain due to franchise adjustments after cost sharing	13,788	24,130
Total (loss)/gain recognised in STRGL	(690)	11,133

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

	2013 £'000	2012 £'000
Start of year	280,505	248,534
Current service cost	10,492	9,583
Brass contribution adjustment	(200)	(234)
Interest cost	7,726	8,135
Employee share of change in DBO (not attributable to franchise adjustment)	21,601	14,478
Actuarial loss	14,185	3,999
Benefit payments	(7,190)	(3,990)
End of year	327,119	280,505

20. Pension scheme (continued)

Movements in the fair value of scheme assets were as follows

	2013 £'000	2012 £'000
Start of year	222,128	210,273
Expected return on assets	11,161	11,104
Company contributions	7,840	7,447
Brass contributions	(200)	(234)
Employee contributions	5,093	4,882
Employee share of return on assets	7,253	1,500
Actuarial loss on assets	(213)	(8,854)
Benefits paid from schemes	(7,190)	(3,990)
End of year	245,872	222,128

Movements in the franchise adjustment were as follows

	2013 £'000	2012 £'000
Start of year	(52,011)	(11,180)
Interest on franchise adjustment	(1,451)	(369)
Employee share of change in DBO	(10,159)	(16,332)
Actuarial gain on franchise adjustment	(13,788)	(24,130)
End of year	(77,409)	(52,011)

History of experience gains and losses

	2013	2012	2011	2010	2009
Experience (gain) or loss on scheme assets					
Amount (£000)	213	8,854	1,198	(20,752)	39,936
Percentage of scheme assets (%)	0 1%	6 6%	0 9%	(18 4%)	48 4%
Experience (gain) or loss on scheme liabilities					
Amount (£000)	39	67	1,974	(5,199)	(8,556)
Percentage of the present value of scheme liabilities (%)	-	-	1 3%	(3 4%)	(8 2%)
Experience (gain) or loss on scheme liabilities after franchise adjustment					
Amount (£000)	(13,749)	(24,063)	23,896	(20,411)	(28,903)
Percentage of the present value of scheme liabilities (%)	(7 0%)	(14 3%)	16 0%	(13 4%)	(27 6%)

Notes to the financial statements
Year ended 31 March 2013

20. Pension scheme (continued)

The company recognises its share of deficit that it expects to fund over the term of its franchise This is accounted for by way of a franchise adjustment Had the company accounted for pensions as if the franchise had an indefinite duration, the impact on the financial statements would have been as follows

	2013 £'000	2012 £'000	2011 £'000
Balance sheet			
Pension deficit	(46,436)	(31,198)	(6,706)
Intangible assets	-	-	(1,435)
Deferred taxation	10,680	7,488	2,117
Impact on net assets	(35,756)	(23,710)	(6,024)
Income statement			
Unwinding of discount on franchise adjustment	(1,451)	(362)	(756)
Intangible asset amortisation	-	1,435	1,433
Deferred taxation	334	(420)	(790)
Impact on profit for the period from continuing operations	(1,117)	653	(113)
Statement of recognised income and expense			
Actuarial (gains)/losses on franchise adjustment	(13,788)	(24,130)	21,923
Deferred tax on actuarial (gains)/losses	3,171	5,791	(5,700)
	(10,617)	(18,339)	16,223

21 Dividends on equity shares

Amounts recognised as distributions to equity holders in the period

	2013 £'000	2012 £'000
Interim dividend for the year ended 31 March 2013 of 10,000,000 pounds (2012 5,000,000 pounds) per ordinary share	10,000	5,000
	10,000	5,000

22 Related party transactions

As a wholly owned member of FirstGroup plc, the company is taking advantage of the exemption under FRS8 not to disclose transactions with other wholly owned group companies that are related parties

Notes to the financial statements
Year ended 31 March 2013

23. Ultimate parent company

The directors regard FirstGroup plc, a company incorporated in United Kingdom and registered in Scotland, as the ultimate and controlling company, which is the smallest and largest group that includes the company's results and for which group financial statements are prepared

The company's immediate controlling party is First Rail Holdings Limited

Copies of the accounts of FirstGroup plc can be obtained on request from 50 Eastbourne Terrace, Paddington, London W2 6LG