Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

31 March 2014

First Capital Connect Limited

Report and financial statements 2014

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Strategic report

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activity

First Capital Connect Limited (FCC) brings together the Thameslink (TL) and Great Northern (GN) routes as a single franchise providing passenger railway services from Brighton to Bedford and King's Cross to Kings 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

FCC runs approximately 115m passenger journeys a year and carries around 190,000 people every weekday, covering 16 million train miles, servicing 104 stations of which of which 78 are operated by FCC. FCC's 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.

The company made a profit on ordinary activities before interest of £13.3m (2013: £5.1m) on turnover of £653.8m (2013: £604.3m), which was ahead of expectations. Passenger receipts growth of 7.7% was achieved over the year along with a 11% growth in passenger journeys, due to the recovery in the economy and our marketing activity. 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. We have continued to respond to the increased cost pressures through careful management of costs as well as building on all the successful revenue generative and cost saving initiatives of the last couple of years. The revenue support from the Department for Transport (DfT) no longer continues from 1 April 2014 and FCC will continue to focus on revenue generation and on the addressable cost base in the months ahead.

At FCC, we continue to improve performance across the company, in delivering punctuality and customer satisfaction improvements, despite infrastructure challenges. We continue to engage and communicate more with our customers and stakeholders, improve engagement with our people and prepare for and deliver the major change programmes. We also continue to work closely with Network Rail, where we can, in order to both help them reduce infrastructure issues, which accounts for two thirds of delays, and also to ensure upgrades are delivered in an efficient manner which causes the least possible disruption to our passengers.

Key Performance Indicators

Safety is at the heart of everything we do at FCC and during the year we have improved our safety performance, despite the fact that we have increased the number of both train miles and passenger journeys made. FCC recognises that we do have to improve our operational safety after a higher than usual level of safety of the line incidents during the year.

At FCC, we continue to focus on performance where our Public Performance Measurement (PPM) of reliability and punctuality stands at 86.1% (2013: 88.3%), a reduction of 2.2% from last year. 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 working closely with Network Rail in planning more efficient engineering possessions for longer term network performance 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. In June 2013, the contracts to fulfil the programme were executed and FCC remains the delivery partner for the Department for Transport (DfT), to ensure the works remain aligned to the overall programme. During the year, all operator milestones were achieved ahead of the contract programme which has enabled the new train to enter the manufacturing phase with an agreed design and with testing to subsequently commence.

First Capital Connect Limited

Strategic report

Key Performance Indicators (continued)

We improved our National Passenger Survey score to 79% in Autumn 2013 from the previous survey, even though the provision of timely services was impacted by severe weather conditions in the survey period. FCC focus on customer priorities has continued during the year and we have invested in better customer information and customer service training as well as improved train cleaning, but recognise that there is more to be done to raise customer satisfaction. We are also concentrating on the way we manage disruption and deliver our service on both the TL and GN routes, particularly given the performance challenges.

We became a partner with a national loyalty points scheme during the year as we joined the Nectar scheme, allowing us to reward our customers by giving them additional incentives when booking online.

FCC's average headcount in the year increased to 2,504 (2013: 2,419), an increase of 3.5% as a result of our investment in resources for delivering customer service and participating in the Thameslink Programme.

Continuing investment in our key assets

FCC were involved in the unveiling of brand new Class 700 trains which will be introduced from 2016 and the beginning of significant work to improve the busy London Bridge station, as part of the £6bn Thameslink Programme which will double capacity on the key cross-London route.

FCC's fleet of Class 365 trains is also being transformed with fresh interiors and enhanced accessibility features as part of a £31m investment by Eversholt Rail, whilst we are deep cleaning 221 carriages to a high standard.

Our new customer app has proved popular and has increasingly being downloaded, providing journey planning and mobile retailing capabilities.

Re-Franchising – future outlook

In February 2014, the DfT agreed an interim franchise for FCC to remain as franchisee until the start of the next franchise, Thameslink Southern Great Northern (TSGN). The FCC franchise will expire on 14 September 2014, the company will enter into a transfer scheme with the successor operator and as a result, the company will no longer be a going concern and cease to trade in the forthcoming year.

Principal risks and uncertainties

Rail franchise agreements

The company is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the rail franchise agreement. This would result in the company losing the right to continue operating the affected operations and consequently, the related revenues or cash flows. The company may also lose some or all of the amounts set aside as security for its performance bond and 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.

Strategic report

Principal risks and uncertainties (continued)

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

Acts of terrorism 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.

Approved by the Board of Directors
and signed on behalf of the Board on 19 June 2014

C J Cornthwaite
Director

50 Eastbourne Terrace
Paddington
London
W2 6LG

First Capital Connect Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2014, for the company with a registered number of 05281077.

Financial matters

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

The directors have not recommended payment of a final dividend (2013: £nil). An interim dividend of £5m was paid in the year (2013: £10m).

Financial risk management and objectives

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
Christopher Cornthwaite
David Statham
Jacqueline Townsend
Laura Dunley
Michael Barker
Jonathan Bridgewood
Lee Archer
Vernon Barker
Keith Jipps

Director appointed during the year:

Robin Kay (appointed 29 October 2013)

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.

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.

Basis other than going concern

The directors have considered the going concern assumption given the current economic climate and the September 2014 franchise end date. The company has not been awarded the new franchise and will cease to trade in the forthcoming year as a result.

Accordingly, the financial statements have been prepared on a basis other than going concern as required by FRS 18 'Accounting Policies'. No material adjustment has arisen as a result of ceasing to apply the going concern basis.

Auditor 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 on behalf of the Board on 19 June 2014

C J Cornthwaite
Director

50 Eastbourne Terrace
Paddington
London
W2 6LG

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 member of First Capital Connect Limited

We have audited the financial statements of First Capital Connect Limited for the year ended 31 March 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the 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 member, 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 member 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 member 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matters prescribed in the Companies Act 2006

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

Independent auditor's report to the member 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

Mark Tolley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 June 2014

First Capital Connect Limited

Profit and loss account
Year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Turnover	2	653,801	604,332
Operating costs (net)	3	(640,454)	(599,269)
Profit on ordinary activities before interest		13,347	5,063
Net interest receivable	7	5,289	5,201
Profit on ordinary activities before taxation	8	18,636	10,264
Tax charge on profit on ordinary activities	9	(5,114)	(2,424)
Profit for the year	18	13,522	7,840

Statement of total recognised gains and losses
Year ended 31 March 2014

	2014 £'000	2013 £'000
Profit for the financial year	13,522	7,840
Actuarial loss relating to the pension scheme	(519)	(690)
UK deferred taxation attributable to actuarial loss	65	143
Total recognised gains for the year	13,068	7,293

First Capital Connect Limited

Balance sheet
At 31 March 2014

	Note	£'000	2014 £'000	£'000	2013 £'000
Fixed assets					
Intangible assets	10		-		-
Tangible assets	11		3,397		7,098
			3,397		7,098
Current assets					
Stocks	12	5,341		5,003	
Debtors	13	59,001		44,015	
Cash at bank and in hand	14	98,679		95,432	
		163,021		144,450	
Creditors: amounts falling due within one year	15	(146,901)		(139,161)	
Net current assets			16,120		5,289
Total assets less current liabilities			19,517		12,387
Net assets excluding pension liability			19,517		12,387
Pension liability	20		(953)		(2,005)
Net assets			18,564		10,382
Financed by:					
Capital and reserves					
Called up share capital	17		-		-
Profit and loss account	18		18,564		10,382
Shareholder's funds			18,564		10,382

The financial statements of First Capital Connect Limited (registered number 05281077) were approved by the Board of Directors and authorised for issue on 19 June 2014.

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 2014

	2014 £'000	2013 £'000
Profit for the financial year	13,522	7,840
Other recognised losses relating to the year (net)	(454)	(547)
Dividends paid	(5,000)	(10,000)
Share based payments	114	137
Net addition/(reduction) to shareholder's funds	8,182	(2,570)
Opening shareholder's funds	10,382	12,952
Closing shareholder's funds	18,564	10,382

Notes to the financial statements
Year ended 31 March 2014

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 a basis other than going concern basis as described in the going concern statement in the Directors' Report on page 5.

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, contracted to expire 14 September 2014, 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.

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.

Notes to the financial statements
Year ended 31 March 2014

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

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 2014

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. £59.6m (2013: £45.9m) of revenue support was receivable in the year.

3. Operating costs

	2014 £'000	2013 £'000
Raw materials and consumables	10,257	11,143
Staff costs (Note 4)	120,172	114,959
Other external charges	244,297	235,305
Franchise payments	254,376	228,245
Depreciation and other amounts written off tangible fixed assets	13,710	11,271
Capital grants amortisation	(2,358)	(1,654)
	640,454	599,269

4. Employee numbers and costs

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

	2014 No.	2013 No.
Operations	808	798
Engineering	563	551
Customer services	1,008	920
Administration	125	150
	2,504	2,419

The aggregate payroll costs of these persons were as follows:

	2014 £'000	2013 £'000
Wages and salaries	100,386	96,529
Social security costs	8,302	7,903
Other pension costs	11,484	10,527
	120,172	114,959

5. Directors' remuneration

4 (2013: 4) directors 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:

	2014 £'000	2013 £'000
Aggregate emoluments (excluding pension contributions)	1,333	1,311

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 (2013: 9) directors are members of a defined benefit pension scheme.

The emoluments of the highest paid director amounted to:

	2014 £'000	2013 £'000
Aggregate emoluments	261	327
Defined benefit scheme		
Accrued pension at end of year	8	12
Accrued lump sum at end of year	7	7

6. Share based payments

Save as you earn (SAYE)

The company's ultimate parent company operates 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.

6. Share based payments (continued)

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

	SAYE December 2013 Options No.	SAYE December 2012 Options No.	SAYE December 2011 Options No.	SAYE December 2010 Options No.
Outstanding at beginning of the year	-	2,957,100	2,530,668	2,284,801
Granted during the year	7,411,980	-	-	-
Bonus Element of rights issue	-	643,399	533,497	483,423
Exercised during the year	-	(1,049)	-	-
Lapsed during the year	(51,844)	(500,300)	(555,406)	(591,832)
Outstanding at the end of the year	**7,360,136**	**3,099,150**	**2,508,759**	**2,176,392**
Exercisable at the end of the year	-	-	-	2,176,392
Weighted average exercise price (pence)	94.1	143.9	271.5	319.0
Bonus element of rights issue	-	(26.6)	(50.1)	(58.9)
Weighted average share price at date of exercise (pence)	N/A	122.5	N/A	N/A

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

	SAYE 2013 Dec 2013	SAYE 2012 Dec 2012
Weighted average share price (pence)	116.00	188.90
Weighted average exercise price (pence)	94.10	143.90
Expected volatility	35%	35%
Expected life	3 years	3 years
Risk-free rate	1.0%	0.4%
Expected dividend yield	0.0%	12.5%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous five years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% p.a. pre-vesting leaver assumption whereas the Executive, 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 £114,000 (2013: £137,000) relating to equity-settled share based payment transactions.

Notes to the financial statements
Year ended 31 March 2014

7. Net interest receivable

	2014 £'000	2013 £'000
Interest payable and similar charges		
Amounts payable to group undertakings	(42)	(64)
Interest on pension scheme liabilities	(6,643)	(6,275)
	(6,685)	(6,339)
Interest receivable and similar income		
Bank interest	384	447
Expected return on pension scheme assets	11,590	11,093
	11,974	11,540
Net interest receivable	5,289	5,201

8. Profit on ordinary activities before taxation

	2014 £'000	2013 £'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	13,710	11,271
Rentals payable under operating leases		
- plant and machinery	57,145	57,522
- other operating leases	67,090	56,102
Net rental income from property	(1,873)	(1,437)

9. Tax charge on profit on ordinary activities

	2014 £'000	2013 £'000
Current taxation		
- UK corporation tax	3,869	2,575
- Adjustment in respect of prior year	672	129
Total current taxation	4,541	2,704
Deferred taxation		
- Origination and reversal of timing differences	10	(701)
- Adjustment in respect of prior year	(59)	(195)
- Effect of decrease in tax rate on opening deferred tax balance	211	75
	162	(821)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	402	514
- Effect of decrease in tax rate on opening deferred tax balance	9	27
	411	541
Total deferred taxation	573	(280)
Total tax charge on profit on ordinary activities	5,114	2,424

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 23% (2013: 24%). The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	2014 %	2013 %
Standard rate of taxation	23.0	24.0
Factors affecting charge		
- Capital allowances less than depreciation	13.7	22.3
- Other timing differences	(16.0)	(21.3)
- Adjustment in respect of prior year	3.6	1.3
Current taxation rate for the year	24.3	26.3

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

Notes to the financial statements
Year ended 31 March 2014

10. Intangible fixed assets

	Pension asset £'000
Cost	
At 1 April 2013	8,600
Disposals	(8,600)
At 31 March 2014	-
Amortisation	
At 1 April 2013	8,600
Disposals	(8,600)
At 31 March 2014	-
Net book value	
At 31 March 2014	-
At 31 March 2013	-

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. This asset was disposed of at 31 March 2014, being the end of the franchise.

11. Tangible fixed assets

	Heavy maintenance examinations £'000	Other plant and equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 1 April 2013	19,667	32,285	397	52,349
Additions	7,451	2,180	378	10,009
Transfers	-	397	(397)	-
Disposals	(4,633)	(32)	-	(4,665)
At 31 March 2014	22,485	34,830	378	57,693
Depreciation				
At 1 April 2013	15,984	29,267	-	45,251
Charge for the year	8,581	5,129	-	13,710
Disposals	(4,633)	(32)	-	(4,665)
At 31 March 2014	19,932	34,364	-	(54,296)
Net book value				
At 31 March 2014	2,553	466	378	3,397
At 31 March 2013	3,683	3,018	397	7,098

Notes to the financial statements
Year ended 31 March 2014

12. Stocks

	2014 £'000	2013 £'000
Spare parts and consumables	5,341	5,003

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

13. Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade debtors	46,645	33,185
VAT	3,246	2,961
Deferred tax asset (Note 16)	2,260	2,422
Other debtors	2,009	164
Prepayments and accrued income	4,841	5,283
	59,001	44,015

14. Cash at bank and in hand

	2014 £'000	2013 £'000
Bank deposits	98,679	95,432

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

	2014 £'000	2013 £'000
Trade creditors	36,500	43,416
Amounts owed to group undertakings	12,775	12,147
Group tax relief	3,497	1,652
Other tax and social security	5,001	2,942
Other creditors	54,252	50,360
Accruals and deferred income	34,876	28,644
	146,901	139,161

Amounts owed to group undertakings include a loan of £10m (2013: £10m) 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 2014

16. Deferred tax asset

	£'000
As at 1 April 2013	2,422
Debit to profit and loss account	(162)
At 31 March 2014 (Note 13)	2,260

The deferred tax asset consists of the following amounts:

	2014 £'000	2013 £'000
Capital allowances in excess of depreciation	2,345	998
Other timing differences	(85)	1,424
Deferred tax asset	2,260	2,422

17. Called up share capital

	2014 £	2013 £
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 2013	10,382
Share based payments	114
Dividends paid	(5,000)
Retained profit for the year	13,522
Profit and loss reserve excluding pension actuarial movements for the year	19,018
Actuarial loss relating to the pension scheme	(519)
UK deferred taxation attributable to actuarial loss	65
At 31 March 2014	18,564

19. Commitments

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

	2014 £'000	2013 £'000
Contracted for but not provided	536	1,326

Operating leases

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

	2014		2013	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	821	49,819	1,592	93,207
	821	49,819	1,592	93,207

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 2014; at this date the market value of the scheme's assets totalled £266.3m (2013: £245.9m). The actuarial value of these assets was sufficient to cover 75.0% (2013: 75.2%) 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% (2013: 10.44%) for employees and 15.66% (2013: 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 2014

20. Pension scheme (continued)

The main financial assumptions used in this update were as follows:

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

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

	Expected rate of return			Value		
	2014	2013	2012	2014 £'000	2013 £'000	2012 £'000
Equities	n/a	n/a	n/a	-	-	-
Bonds	4.10%	3.75%	4.25%	13,071	12,133	10,923
Property	n/a	n/a	n/a	-	-	-
Cash Plus	7.50%	8.00%	8.40%	208,028	189,018	172,766
Private Equity	7.50%	8.00%	8.65%	31,425	30,337	27,420
Other	5.15%	6.96%	7.72%	13,738	14,384	11,019
				266,262	245,872	222,128

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:

	2014 £'000	2013 £'000	2012 £'000
Total fair value of assets	266,262	245,872	222,128
Present value of scheme liabilities	(355,270)	(327,119)	(280,505)
Deficit in the scheme	(89,008)	(81,247)	(58,377)
Rail franchise adjustment	52,271	46,436	31,198
Adjustment for employee share of deficit	35,531	32,208	23,032
Liability recognised in balance sheet	(1,206)	(2,603)	(4,147)
Related deferred tax asset	253	598	995
Net pension liability	(953)	(2,005)	(3,152)

Notes to the financial statements
Year ended 31 March 2014

20. Pension scheme (continued)

Analysis of amount charged to operating profit:

	2014 £'000	2013 £'000
Current service cost	11,484	10,492
Total operating charge	11,484	10,492

Amounts credited to net finance income:

	2014 £'000	2013 £'000
Expected return on pension scheme assets	11,590	11,093
Interest on pension scheme liabilities	(6,643)	(6,275)
Net return credited as finance interest	4,947	4,818

Amounts recognised in the statement of total recognised gains and losses:

	2014 £'000	2013 £'000
Actual return less expected return on pension scheme assets	(2,406)	(213)
Experience losses arising on scheme liabilities	(1,858)	(14,265)
Actuarial gain due to franchise adjustments after cost sharing	3,745	13,788
Total loss recognised in STRGL	(519)	(690)

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

	2014 £'000	2013 £'000
Start of year	327,119	280,505
Current service cost	11,484	10,492
Brass contribution adjustment	(184)	(200)
Interest cost	8,733	7,726
Employee share of change in DBO (not attributable to franchise adjustment)	14,673	21,601
Actuarial loss	1,975	14,185
Benefit payments	(8,530)	(7,190)
End of year	355,270	327,119

Notes to the financial statements
Year ended 31 March 2014

20. Pension scheme (continued)

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

	2014 £'000	2013 £'000
Start of year	245,872	222,128
Expected return on assets	11,590	11,161
Company contributions	8,634	7,840
Brass contributions	(184)	(200)
Employee contributions	5,648	5,093
Employee share of return on assets	5,638	7,253
Actuarial loss on assets	(2,406)	(213)
Benefits paid from schemes	(8,530)	(7,190)
End of year	266,262	245,872

Movements in the franchise adjustment were as follows:

	2014 £'000	2013 £'000
Start of year	(77,409)	(52,011)
Interest on franchise adjustment	(2,090)	(1,451)
Employee share of change in DBO	(3,890)	(10,159)
Actuarial gain on franchise adjustment	(3,745)	(13,788)
End of year	(87,134)	(77,409)

History of experience gains and losses

	2014	2013	2012	2011	2010
Experience (gain) or loss on scheme assets:					
Amount (£000)	2,406	213	8,854	1,198	(20,752)
Percentage of scheme assets (%)	1.5%	0.1%	6.6%	0.9%	(18.4%)
Experience (gain) or loss on scheme liabilities:					
Amount (£000)	(70)	39	67	1,974	(5,199)
Percentage of the present value of scheme liabilities (%)	-	-	-	1.3%	(3.4%)
Experience (gain) or loss on scheme liabilities after franchise adjustment:					
Amount (£000)	(3,815)	(13,749)	(24,063)	23,896	(20,411)
Percentage of the present value of scheme liabilities (%)	(1.8%)	(7.0%)	(14.3%)	16.0%	(13.4%)

Notes to the financial statements
Year ended 31 March 2014

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:

	2014 £'000	2013 £'000	2012 £'000
Balance sheet			
Pension deficit	(52,271)	(46,436)	(31,198)
Intangible assets	-	-	-
Deferred taxation	10,977	10,680	7,488
Impact on net assets	(41,294)	(35,756)	(23,710)
Income statement			
Unwinding of discount on franchise adjustment	(2,090)	(1,451)	(362)
Intangible asset amortisation	-	-	1,435
Deferred taxation	439	334	(420)
Impact on profit for the period from continuing operations	(1,651)	(1,117)	653
Statement of recognised income and expense			
Actuarial gains on franchise adjustment	(3,745)	(13,788)	(24,130)
Deferred tax on actuarial gains	786	3,171	5,791
	(2,959)	(10,617)	(18,339)

21. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	2014 £'000	2013 £'000
Interim dividend for the year ended 31 March 2014 of 5,000,000 pounds (2013: 10,000,000 pounds) per ordinary share	5,000	10,000
	5,000	10,000

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.

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.