FIRST SCOTRAIL LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2014

Company Registered Number: SC185018

Registered Office:

395 King Street
Aberdeen
AB24 5RP

FIRST SCOTRAIL 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 activities

The principal activity of the company during the year was the operation of passenger railway services in Scotland and sleeper services to and from London.

Business Review and future outlook

The franchise to operate passenger railway services commenced on 17 October 2004, and following a 3-year extension, was to continue until November 2014 but it has been subsequently agreed to continue to 31 March 2015. The original commitment to invest £40m in station enhancements, increased CCTV and passenger information coverage and additional ticket issuing facilities, is now complete with £42.5m of investment since the start of the franchise. The further investment commitment of £70m, agreed as part of the 3-year extension agreement, is also being implemented and as part of the franchise continuation to March 2015, there is further investment commitments in Smartcards, Commonwealth Games facilities at stations (which are being held in Glasgow in 2014) and Wi-Fi on the Class 380 trains which has now been completed.

Operating profit in the year to 31 March 2014 was £17.0m (2013 - £10.9m).

Turnover was £855.2m (2013 - £778.7m), including £506.4m (2013 - £447.2m) of Revenue Grant from Transport Scotland. The Revenue Grant increase principally relates to the increase in Track Access charges payable to Network Rail, as determined by the Office of Rail Regulation (ORR). Passenger Income for this period was £316.8m (2013 - £297.4m), an increase of 6.5%. There has been a continued focus on service delivery, customer service and revenue protection throughout the year.

Profit after tax for the year was £17.3m (2013 - £14.2m). Net assets on the balance sheet have decreased to £12.5m (2013 - £12.7m), after payment of interim dividends in the year of £21.0m (2013 - £12.0m); capital contributions in respect of share based payments £0.2m (2013 - £0.3m) and as a result of the actuarial gain relating to the pension scheme of £3.9m (2013 – gain of £2.6m), offset by related deferred tax of £0.7m (2013 – £0.6 m) and profit after tax of £17.3m

During the year, Wi-Fi was rolled out at 25 stations across Scotland and On Train Wi-Fi was rolled out on the Class 170 and 380 Fleets.

The Class 170 and Class 334 fleets were fitted with Driver Advisory Systems (DAS) which will help reduce fuel costs and at the same time reducing the carbon footprint.

First ScotRail also achieved Investors in People (IIP) Gold Accreditation during the year.

Key Performance Indicators

	2011-12	2012-13	2013-14
Safety			
Passenger FWI(1) per Million journeys	0.02	0.02	0.02
Customer satisfaction			
National Passenger Survey - Overall satisfaction	89.0%	90.0%	87.0%
Performance			
Public Performance Measure (PPM) – Moving Annual Average	90.7%	93.0%	91.3%
Employees			
Staff Engagement	73%	75%	77%
Environmental			
Tonnes of CO2 per vehicle km	82.34	82.90	78.12

(1) FWI = Fatalities & Weighted Injuries and is the industy benchmark for measuring the consequences of accidents.

Key Performance Indicators (continued)

Safety is at the heart of everything we do, and ScotRail recognises that we do have to improve our operational and occupational safety after a higher than usual level of incidents during the year.

Our Autumn 2013 National Passenger Survey (NPS) results on Customer satisfaction dropped to 87%, however the Spring 2014 results recently published increases it back to 90%.

At ScotRail, we continue to focus on performance where our Public Performance Measurement (PPM) of reliability and punctuality stands at 91.3% PPM (MAA) dropped from the record year set in 2012-13, however PPM is now returning to previous levels in recent months, with a record high set in Period 02 of this year of 95.3%

Staff Engagement continues to rise year on year and is indeed the highest of any train operating company within the UK and as mentioned above, the company recently received Investors in People Gold Accreditation.

The company continues to improve on its Environmental targets and reduce its carbon footprint through a variety of measures.

Outlook

The coming year will see a further investment in Station Enhancements and Car Parks in advance of the Commonwealth Games and Ryder Cup in 2014. There will also be Wi-Fi rolled out at a further 25 stations.

Automatic Ticket Gates will be introduced at Perth and Inverness and there will be expansion of the SmartCard Infrastructure throughout the year.

The franchise re-letting process has commenced, with Serco recently been announced as the successful bidder for the Caledonian Sleeper which has been let by Transport Scotland as a stand - alone 15 year contract, separate from the ScotRail day services. 5 short listed bidders have submitted proposals to Transport Scotland for the day services with a decision expected from them in October.

Risks and Opportunities

Fuel costs

Fuel prices and supply can be influenced significantly by international, political and economic circumstances which could have an adverse impact on the company's operating results. To mitigate the risks of rising fuel costs, the parent company regularly enters into forward contracts to buy fuel at fixed prices and also limit the impact of any fuel price rise through efficiency and pricing measures.

Terrorism

Terrorist acts and the public's concerns about potential attacks could adversely affect demand for our services. The parent company has a Head of Security who is responsible for improved security awareness, the application of good practice and the development and training of our employees so that the company can respond effectively to any perceived threat or incident.

Economy

The business environment and the level of general economic activity affect the number of train journeys taken by passengers in the UK. Any changes in economic activity may impact upon the passenger numbers and hence our operations.

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 fuel, commitments under finance leases, hire purchase contracts and operating leases are paid by direct debit. At 31 March 2014 the company had 25.4 days (2013 – 24.8 days) purchases outstanding.

Financial instruments

The company's principal financial assets are bank balances and trade and group 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 credit risk, with exposure mainly on rail industry partners. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Although certain risks, for example fuel price, are hedged on a group basis, the company does not directly enter into any derivative financial instruments. The company's principal financial liabilities are trade and group creditors and maintenance bond liabilities (see note 1(j)).

Going concern

The directors have considered the going concern assumption in conjunction with the current economic climate, the franchise re-letting process and the company forecasts. In relation to the franchise re-letting process, Transport Scotland has stated the winning bidder for the new franchise will be announced in October 2014 with the new franchise commencing on April 2015. Taking this information into account, the directors' 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 signing date of these financial statements. The directors have considered the reasonable risks and sensitivity scenarios in forming this judgement.

Included in creditors due within one year are Deferred Capital Grants of £12.5m (2013 - £10.8m) and Maintenance Bonds of £21.1m (2013 - £21.4m). The Deferred Capital Grants are being amortised over the franchise period and the Maintenance Bonds are only payable on demand under the terms of the Franchise Agreement. Therefore, excluding these items, the balance sheet would show net current assets of £23.4m

After making enquiries and considering the above facts, the directors continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board of Directors
and signed by order of the Board

Stephen Montgomery
Managing Director
3 July 2014

395 King Street
Aberdeen
AB24 5RP

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 2014.

Directors

The directors who held office throughout the year and to the date of this report (except as noted) and subsequently appointed are as follows:

Clive Burrows
Hugh Patrick Clancy
Jacqueline Dey
David Clement Gausby
Kenneth Allan McPhail
Vernon Ian Barker
Sean Duffy
Stephen Montgomery
David Murdoch (resigned 12.7.13)
Gary Stewart (appointed 12.7.13)
Kenneth James Docherty (appointed 24.01.14)

Company Secretary

The Company Secretaries who held office throughout the year and to the date of this report (except as noted) and subsequently appointed are as follows:

	Appointed	Resigned
Paul Michael Lewis		19 May 2014
Robert John Welsh	19 May 2014	

Directors' Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Employee involvement

Communication with employees is effected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the 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.

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Financial matters

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

The directors have not recommended payment of a final dividend but interim dividends of £21m (2013 - £12m) were paid.

Charitable and political donations

The company made charitable donations of £32,297 during the year (2013 - £54,789).

Audit information

Each of the persons who are 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 has indicated its willingness to continue as auditor of the company and is therefore deemed to be reappointed for a further term.

Approved by the Board of Directors
and signed by order of the Board

Stephen Montgomery
Managing Director
3 July 2014

395 King Street
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DIRECTORS' RESPONSIBILITIES STATEMENT

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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST SCOTRAIL LIMITED

We have audited the financial statements of First ScotRail Limited for the year ended 31 March 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Statement of Total Recognised Gains and Losses, and the related notes 1 to 24. 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 explained more fully 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 Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 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.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given 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.

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.

Chris Powell

Christopher Powell FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, United Kingdom
8 July 2014

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Turnover	2	855,164	778,672
Net operating costs			
- General		(837,164)	(766,473)
- Intangible asset amortisation	11	(1,028)	(1,279)
Total net operating costs	3	(838,192)	(767,752)
Operating profit		16,972	10,920
Net interest receivable	7	8,685	8,261
Profit on ordinary activities before taxation	8	25,657	19,181
Tax charge on profit on ordinary activities	9	(8,311)	(4,991)
Profit on ordinary activities after taxation	19	17,346	14,190

All activities relate to continuing operations.

The notes on pages 10 to 29 form an integral part of these financial statements.

BALANCE SHEET
At 31 March 2014

	Notes	2014 £000	2013 £000
Fixed assets			
Intangible assets	11	1,029	2,058
Tangible assets	12	23,716	35,057
		24,745	37,115
Current assets			
Stocks	13	6,190	5,856
Debtors	14	45,540	49,206
Cash at bank and in hand		102,264	112,229
		153,994	167,291
Creditors: amounts falling due within one year	15	(164,233)	(177,097)
Net current liabilities		(10,239)	(9,806)
Total assets less current liabilities		14,506	27,309
Creditors: amounts falling due after more than one year	15	-	(9,050)
Net assets excluding pension liability		14,506	18,259
Net pension liability	22	(2,002)	(5,579)
Net assets including pension liability		12,504	12,680
Financed by:			
Equity and reserves			
Called up share capital	18	-	-
Profit and loss account	19	12,504	12,680
Shareholders' funds		12,504	12,680

The notes on pages 10 to 29 form an integral part of these financial statements.

The financial statements of First ScotRail Limited, company registered number SC185018, were approved by the Board of Directors on 3 July 2014 and were signed on its behalf by:

Stephen Montgomery
Managing Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2014

	2014 £000	2013 £000
Profit for the financial year	17,346	14,190
Dividends paid in the year	(21,000)	(12,000)
Actuarial gain on pension scheme (net of deferred tax)	3,265	2,062
Capital contribution in respect of share based payments	213	265
Net (reduction)/increase in shareholders' funds	(176)	4,517
Opening shareholders' funds	12,680	8,163
Closing shareholders' funds	12,504	12,680

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2014

	2014 £000	2013 £000
Profit for the financial year	17,346	14,190
Actuarial gain relating to pension scheme (note 22)	3,945	2,615
UK deferred taxation attributable to actuarial gain	(680)	(553)
Total recognised gains and losses for the year	20,611	16,252

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

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

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis, and on the going concern basis as described in the going concern statement in the Strategic Report on page 3, and in accordance with applicable United Kingdom accounting standards.

(b) 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 the company within its Group financial statements.

(c) 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 as follows:

Buildings	-	5 to 10 years straight line
Plant and Machinery	-	3 to 10 years straight line
Fixtures and Fittings	-	3 to 10 years straight line
Computer Equipment	-	4 years straight line
Leased Assets	-	3 to 10 years straight line

The majority of assets are being depreciated to the end of the franchise with some items of plant and machinery being depreciated between 2 and 10 years where management believe they have an extended useful life.

Assets under construction start depreciating once a project is completed.

(d) Deferred capital grants

Income received in relation to fixed assets acquisitions is recognised as Deferred capital grants within creditors and is amortised over the useful life of the asset.

(e) Leases and hire purchase

Assets held under finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and under hire purchase contracts are recorded in the balance sheet as tangible fixed assets. Depreciation is provided on these assets over their estimated useful lives or lease term, as appropriate.

Future obligations under finance leases and hire purchase contracts are included in creditors, net of finance charges. Payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligations. The finance charges are calculated in relation to the reducing amount of obligations outstanding and are charged to the profit and loss account on the same basis.

1 Principal accounting policies (continued)

(e) Leases and hire purchase (continued)

All other 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

(f) Government grants and subsidies

Amounts receivable for tendered services and concessionary fare schemes and financial support receivable from Transport Scotland are included in turnover (see note 1 (m) below). Rebates in respect of duty paid on fuel are netted off operating costs.

(g) Stocks

Stocks are valued at the lower of cost and net realisable value.

(h) Taxation

UK corporation tax is provided at amounts expected to be paid 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.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future has occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

(i) Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise in relation to the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term, a liability which is assumed without additional consideration or payment receivable. The balance is being amortised on a straight line basis over the period to March 2015.

(j) Maintenance bond

At the start of the franchise, funds were received from the Strategic Rail Authority and Strathclyde Passenger Transport for future maintenance of some of the Class 170 trains.

The cash deposits received are secured as a bond in respect of future rolling stock maintenance. The receipts are recorded within Debtors under Amounts owed by

1 Principal accounting policies (continued)

(j) Maintenance bond (continued)

group undertakings and the Maintenance Bond is recorded within Creditors. All maintenance payments made are subsequently deducted from this bond and interest receivable on these funds is calculated on a daily basis and applied against the maintenance bond. The maintenance bond from the Strategic Rail Authority has now expired.

(k) Pension costs

Company specific scheme

The company operates a defined benefit scheme which is held in separately administered funds.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown within interest payable and interest receivable respectively. 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.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A "franchise adjustment" is made to the deficit on this basis. The franchise adjustment is the projected deficit to the end of the franchise term which the company will not be required to fund, discounted back to present value. On transition of a rail franchise, an intangible asset is recognised as set out in note 1 (i) above, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund. This intangible asset is being amortised on a straight line basis over the revised franchise term.

(l) 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 company'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.

1 Principal accounting policies (continued)

(m) Turnover and revenue recognition

Turnover represents the amounts receivable for services supplied to customers during the year and includes rail support grants and amounts receivable for tendered services and concessionary fare schemes in the period. Revenue is recognised in the period it is earned. Revenue which relates to future periods is deferred and released to the profit and loss account over the relevant period that the revenue is earned. Amounts received in respect of performance regimes are recorded within operating costs.

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.

2 Turnover

	2014 £000	2013 £000
Passenger income	316,800	297,365
Revenue grant	506,433	447,196
Other income	31,931	34,111
	855,164	778,672

3 Total net operating costs

	2014 £000	2013 £000
Raw materials and consumables	168,794	154,720
Staff costs	201,129	189,377
Other external charges	459,581	414,493
Depreciation of tangible fixed assets	18,113	17,007
Amortisation of deferred capital grants	(10,453)	(9,124)
Intangible asset amortisation	1,028	1,279
	838,192	767,752

Included within staff costs are redundancy costs of £694,519 (2013: £430,834

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.
Drivers	1,103	1,061
On train staff	1,114	1,105
Station staff	1,164	1,133
Fleet maintenance staff	870	844
Management and administrative	530	521
	4,781	4,664

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	160,708	153,060
Social security costs	12,495	11,750
Other pension costs	21,721	18,667
Redundancy costs	695	431
Other staff costs	5,510	5,469
	201,129	189,377

Other staff costs include agency staff, hired-in train crew and staff expenses.

5 Directors' remuneration

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

	2014 £000	2013 £000
Aggregate emoluments (excluding pension contributions)	1,183	1,143
Company pension contributions	83	96
	1,266	1,239

Retirement benefits accrue to 7 (2013 - 6) directors under a defined benefit scheme.

5 Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2014 £000	2013 £000
Aggregate emoluments	382	359
Company pension contributions to defined benefit scheme	26	27
	408	386
Defined benefit scheme		
Accrued annual pension at end of year	94	90
Accrued lump sum at end of year	54	51

6 Share based payments

Details of the share options outstanding across the FirstGroup plc group during the year are as follows:

(a) Save As You Earn (SAYE)

The Group operates an HM Revenue & Customs approved savings related share option scheme. Grants were made as set out below. The scheme is based on eligible employees being granted options and their agreement to opening a Sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave 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.

	SAYE Dec 2009 Options Number	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number	SAYE Dec 2013 Options Number
Outstanding at the beginning of the year	2,092,655	2,284,801	2,530,668	2,957,100	-
Awarded during the year	-	-	-	-	7,411,980
Bonus element of rights issue	469,111	483,423	533,497	643,399	-
Exercised during the year	-	-	-	(1,049)	-
Lapsed during the year	(2,561,766)	(591,832)	(555,406)	(500,300)	(51,844)
Outstanding at the end of the year	-	2,176,392	2,508,759	3,099,150	7,360,136
Exercisable at the end of the year	-	2,176,392	-	-	-
Weighted average exercise price (pence)	310.0	319.0	271.5	143.9	94.1
Bonus element of rights issue	(57.3)	(58.9)	(50.1)	(26.6)	-
New weighted average exercise price (pence)	252.7	260.1	221.4	117.3	-
Weighted average share price at date of exercise (pence)	N/A	N/A	N/A	122.5	N/A

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Share based payments (continued)

(b) Deferred bonus shares (DBS)

	DBS 2004 Options Number	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number
Outstanding at the beginning of the year	5,989	32,952	86,616	170,397	75,048
Granted during the year	-	-	-	-	-
Bonus element of rights issue	1,356	7,465	19,124	35,255	16,705
Forfeited during the year	-	-	-	-	-
Exercised during the year	-	(5,495)	(2,510)	(17,652)	(5,272)
Outstanding at the end of the year	7,345	34,922	103,230	188,000	86,481
Exercisable at the end of the year	7,345	34,922	103,230	188,000	86,481
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	N/A	139.6	124.7	196.4	129.0

	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number
Outstanding at the beginning of the year	81,569	399,822	493,304	919,120	-
Granted during the year	-	-	-	-	1,748,987
Bonus element of rights issue	18,064	51,791	107,302	198,562	396,196
Forfeited during the year	-	-	(24,680)	(70,558)	(114,427)
Exercised during the year	(14,504)	(233,165)	(13,822)	(21,915)	-
Outstanding at the end of the year	85,129	218,448	562,104	1,025,209	2,030,756
Exercisable at the end of the year	85,129	218,448	-	-	-
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	128.4	157.2	166.8	216.1	N/A

(c) Buy As You Earn (BAYE) scheme

BAYE enables eligible employees to purchase shares from their gross income. The Company provides two matching shares for every three shares bought by employees, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2014 there were 7,903 (2013: 8,306; 2012: 8,354) participants in the BAYE scheme who have cumulatively purchased 9,201,084 (2013: 6,159,479; 2012: 6,869,043) shares with the Company contributing 2,998,927 (2013; 1,936,789; 2012: 2,128,810) matching shares on a cumulative basis.

(d) Long Term Incentive Plan (LTIP)

Awards under the LTIP scheme vest over the three year periods to 31 March from year of award with 50% of the award being dependent upon Adjusted EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared a comparator group.

	LTIP 2010 Options Number	LTIP 2011 Options Number	LTIP 2012 Options Number	LTIP 2013 Options Number
Outstanding at the beginning of the year	3,774,007	4,726,555	5,998,235	-
Granted during the year	-	-	-	12,926,564
Bonus element of rights issue	-	953,212	1,280,765	-
Forfeited during the year	-	(846,544)	(770,863)	(364,239)
Lapsed during the year	(3,774,007)	-	-	-
Outstanding at the end of the year	-	4,833,223	6,508,137	12,562,325
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil

The inputs into the FirstGroup plc Black-Scholes model were as follows:

	2014	2013
Weighted average share price at grant date (pence)		
- DBS	127.4	220.1
- SAYE December 2012	-	188.9
- SAYE December 2013	116.0	-
- LTIP	119.0	223.1
Weighted average exercise price at grant date (pence)		
- DBS	-	-
- SAYE December 2012	-	143.9
- SAYE December 2013	94.1	-
- LTIP	-	-
Expected volatility		
- DBS	N/A	43%
- SAYE December 2012	-	35%
- SAYE December 2013	35%	-
- LTIP	48%	31%
Expected life (years)		
- DBS	3	3
- SAYE schemes	3	3
- LTIP	2	3
Rate of interest		
- DBS	N/A	0.4%
- SAYE December 2012	-	0.4%
- SAYE December 2013	1.0%	-
- LTIP	0.6%	0.4%
Expected dividend yield		
- DBS	0%	10.8%
- SAYE December 2012	-	12.5%
- SAYE December 2013	0%	-
- LTIP	0%	10.6%

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 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 schemes. The company has recognised a total expense of £213,000 (2013: £265,000) relating to equity-settled share-based payment transactions.

7 Net interest receivable

	2014	2013
	£000	£000
Interest payable		
Finance leases and hire purchase contracts	(21)	(39)
Amounts payable under Maintenance Bond	(962)	(1,027)
Interest on pension scheme liabilities	(11,720)	(11,123)
	(12,703)	(12,189)
Interest receivable		
Bank interest	96	308
Amounts receivable from other group undertakings	962	1,026
Return on pension scheme assets	20,330	19,116
	21,388	20,450
Net interest payble	8,685	8,261

8 Profit on ordinary activities before taxation

	2014	2013
	£000	£000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration		
- Deloitte LLP audit fee	66	53
- Deloitte LLP regulatory reporting	5	4
Depreciation and other amounts written off tangible fixed assets		
- owned assets	17,903	16,797
- held under finance leases and hire purchase contracts	210	210
Amortisation of deferred grants	(10,453)	(9,124)
Amortisation of franchise goodwill	1,028	1,279
Government grants	(506,433)	(447,196)
Rentals receivable under operating leases		
- property	(2,105)	(2,011)
Rentals payable under operating leases		
- land and buildings	3,883	3,807
- other operating leases	421,357	371,651

9 Tax charge on profit on ordinary activities

	2014 £000	2013 £000
Current taxation		
- UK Corporation tax	6,847	6,124
- Adjustments in respect of prior years	261	49
Total current taxation	7,108	6,173
Deferred taxation		
- Origination and reversal of timing differences	233	(1,835)
- Effect of a decrease in tax rate on opening deferred balance	320	85
- Adjustment in respect of prior years	133	150
	666	(1,600)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	(40)	295
- Effect of a decrease in tax rate on opening deferred balance	248	123
- Adjustment in respect of prior years	329	-
	537	418
Total deferred taxation	1,203	(1,182)
Total tax charge on profit on ordinary activities	8,311	4,991

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		
- Expenses not deductible for tax purposes	-	0.3
- Capital allowances less than depreciation	13.0	11.4
- Other timing differences	(9.3)	(3.8)
- Adjustment to prior years' tax charge	1.0	0.3
Current taxation rate for the year	27.7	32.2

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. As the franchise is due to end on 31 March 2015, deferred tax has been recognised at 21%. The impact of this rate reduction to 21% has reduced the deferred tax liability on UK timing differences.

10 Dividends

	2014 £000	2013 £000
Interim dividend for the year ended 31 March 2014 of £21.0m (2013; £12.0m) per 2 ordinary shares	21,000	12,000

Interim dividends were paid in the year of £21m to First Rail Holdings Limited. No final dividend is proposed.

11 Intangible assets

	Franchise goodwill £000
Cost	
At 1 April 2013 and 31 March 2014	16,900
Amortisation	
At 1 April 2013	14,843
Charge for year	1,028
At 31 March 2014	15,871
Net book value	
At 31 March 2014	1,029
At 31 March 2013	2,058

Franchise goodwill arises on the transition of a rail franchise, representing the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term.

12 Tangible fixed assets

	Buildings	Plant & Machinery	Fixtures & Fittings	Computer Equipment	Leased Assets	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost							
At 1 April 2013	38,101	57,057	6,119	6,471	2,227	23	109,998
Additions	1,417	1,066	133	3,345	-	1,002	6,963
Disposals	-	(287)	-		-	-	(287)
Transfers	(21)	(1,288)	-	1,515	-	(206)	-
At 31 March 2014	39,497	56,548	6,252	11,331	2,227	819	116,674
Depreciation							
At 1 April 2013	26,914	35,679	4,989	5,451	1,908	-	74,941
Charge for year	6,187	9,758	623	1,335	210	-	18,113
Disposals	-	(96)	-	-	-		(96)
At 31 March 2014	33,101	45,341	5,612	6,786	2,118		92,958
Net book value							
At 31 March 2014	6,396	11,207	640	4,545	109	819	23,716
At 31 March 2013	11,187	21,378	1,130	1,020	319	23	35,057

Transfers relate to moving assets under construction into one of the other categories above on completion.

Assets held under finance lease:

	Plant & Machinery	Computer Equipment	Total
	£000	£000	£000
Cost			
At 1 April 2013	2,139	88	2,227
At 31 March 2014	2,139	88	2,227
Depreciation			
At 1 April 2013	1,820	88	1,908
Charge for year	210	-	210
At 31 March 2014	2,030	88	2,118
Net book value			
At 31 March 2014	109	-	109
At 31 March 2013	319	-	319

13 Stocks

	2014 £000	2013 £000
Spare parts and consumables	6,190	5,856

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

14 Debtors

	2014 £000	2013 £000
Amounts due within one year		
Trade debtors	9,973	13,495
Amounts owed by group undertakings	20,846	21,456
VAT	6,127	5,979
Other debtors	40	38
Prepayments and accrued income	5,427	4,445
Deferred tax asset (note 16)	3,127	3,793
	45,540	49,206

15 Creditors

	2014 £000	2013 £000
Amounts falling due within one year		
Obligations under finance leases and hire purchase contracts	145	276
Trade creditors	53,733	57,852
Corporation tax	4,115	3,936
Other tax and social security	3,606	3,493
Other creditors	7,466	5,271
Pension liabilities	-	1,583
Deferred capital grants	12,547	10,815
Maintenance bond	21,133	21,436
Accruals and other deferred income	61,488	72,435
	164,233	177,097

Amounts falling due after more than one year

	2014	2013
Obligations under finance leases and hire purchase contracts		
-Due in more than one year but not more than two years	-	145
	-	145
Deferred capital grants		
-Due in more than one year but not more than two years	-	8,905
-Due in more than two years but not more than five years		-
	-	8,905
	-	9,050

15 Creditors (continued)

Deferred capital grants at 1 April 2013	19,720
Received during the year	3,280
Credited to profit and loss account	(10,453)
Deferred capital grants at 31 March 2014	12,547
Due within one year	12,547
Due after more than one year	-

Finance lease and hire purchase contract liabilities are secured on the assets to which they relate. The contracts vary in length between three and ten years and are on normal commercial terms at negotiated rates.

16 Deferred tax asset

The deferred tax asset consists of the following amounts:

	2014	2013
	£000	£000
Deferred tax asset at 1 April	3,793	2,193
(Charged)/Credited to profit and loss account (note 9)	(666)	1,600
Deferred tax asset at 31 March	3,127	3,793

The closing balance is included within Debtors (note 14).
Details of the deferred tax asset are given in note 17.

17 Deferred taxation

	2014	2013
	£000	£000
Capital allowances less than depreciation	205	1,155
Other timing differences	2,922	2,638
Deferred tax asset	3,127	3,793

18 Called up share capital

	2014	2013
	£	£
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
2 ordinary shares of £1 each	2	2

19 Reserves

	Profit and loss account £000
At 1 April 2013	12,680
Profit for the year	17,346
Dividends paid in the year	(21,000)
Actuarial gain on pension deficit net of deferred tax	3,265
Capital contribution in respect of share based payment	213
At 31 March 2014	12,504

20 Commitments

Capital expenditure

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	3,724	2,197

21 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	22,246	173,886	1	-
- one to five years	-	-	24,375	400,673
Total	22,246	173,886	24,376	400,673

22 Pension scheme

The company applies Financial Reporting Standard 17 – Retirement Benefits, as set out below.

Railway Pension Scheme – First ScotRail 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 last full actuarial valuation of the scheme was carried out by independent actuaries as at 31 December 2010. The actuarial valuation was updated for 31 March 2014; at this date the market value of the scheme's assets totalled £461.9m (2013: £428.9m). The actuarial value of these assets was sufficient to cover 77.5% (2013: 78.9%) 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 schemes' 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 10.28% (2013: 10.28%) for employees and 15.42% (2013: 15.42%) for employers.

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of earnings increase would be 4.2% per annum and the rate of inflation would be (RPI/CPI) 3.2%/2.4% per annum. The valuation was made using the projected unit method.

Under the terms of the Railways Pension Scheme (RPS), any fund deficit is shared by the employer (60%) and the employees (40%).

The current service pension cost relating to this scheme in the year was £21.7m (2013 - £18.7m).

22 Pension scheme (continued)

The valuation has been updated for FRS17 purposes at 31 March 2013.
The key assumptions used in the FRS 17 valuation were as follows:

	2014 %	2013 %
Discount rate	4.4	4.5
Expected return on scheme assets	7.3	7.8
Expected rate of salary increases	3.7	3.7
Inflation	3.2	3.2
Future pension increases	2.1	2.2

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

	2014 £m	2013 £m
Current service cost	21.7	18.7
Interest cost	14.6	12.8
Expected return on scheme assets	(20.3)	(19.1)
Interest on franchise adjustment	(2.8)	(1.7)
	13.2	10.7

Actuarial gains and losses have been reported in the statement of recognised gains and losses.

The actual return on scheme assets was £23.1m (2013: £34.81m).

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit pension scheme is as follows:

	2014 £m	2013 £m
Fair value of scheme assets	461.9	428.9
Present value of defined benefit obligations	(595.7)	(544.8)
Rail franchise adjustment (60%)	78.0	62.9
Adjustment for employee share of RPS deficits (40%)	53.5	46.0
Deficit in scheme	(2.3)	(7.0)
Related deferred tax asset	0.3	1.4
Net pension liability recognised in the balance sheet	(2.0)	(5.6)

22 Pension Scheme (continued)

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

	2014 £m	2013 £m
At 1 April	544.8	465.4
Current service cost	21.7	18.7
BRASS[1] contribution adjustment	(0.6)	(0.7)
Interest cost	14.6	12.8
Employee share of change in DBO (not attributable to franchise adjustment)	25.4	36.7
Actuarial loss	2.6	23.5
Benefit payments	(12.8)	(11.6)
At 31 March	595.7	544.8

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

	2014 £m	2013 £m
At 1 April	428.9	384.1
Expected return on assets	20.2	19.1
Company contributions	14.0	13.7
BRASS[1] contribution adjustment	(0.6)	(0.7)
Employee contributions	9.3	8.6
Employee share of return on assets	8.9	13.9
(Loss)/Gain on assets	(6.0)	1.8
Benefits paid from schemes	(12.8)	(11.6)
At 31 March	461.9	428.9

Movements in the franchise adjustments prior to cost sharing were as follows:

	2014 £m	2013 £m
At 1 April	(104.8)	(60.9)
Interest on franchise adjustment	(2.8)	(1.6)
Employee share of change in DBO (attributable to franchise adjustment)	(10.1)	(17.6)
Actuarial (gain) on franchise adjustment	(12.3)	(24.7)
At 31 March	(130.0)	(104.8)

The analysis of the scheme assets and the expected rate of return at the balance sheet dates were as follows:

	Expected Return 2014 %	Fair value of assets 2014 £m	Expected Return 2013 %	Fair value of assets 2013 £m
Equity instruments[2]	7.5	0.0	8.0	0.0
Debt instruments	4.1	22.9	3.8	21.0
Property	6.0	0.0	6.5	0.0
Other assets	7.5	439	8.0	407.9
		461.9		428.9

22 Pension Scheme (continued)

The expected rates of return on assets were determined by reviewing the individual asset classes and applying a model developed by an independent firm of actuaries.

	2014	2013
	%	%
Equity instruments	7.5	8.0
Debt instruments	4.1	3.8
Property	6.0	6.5
Other - cash	3.4	2.8
- infrastructure	7.5	8.0
- cash plus[2]	7.5	8.0
- Commodities	7.5	8.0
- Private Equity	7.5	8.0
- other	0.0	1.0

The history of experience adjustments is as follows:

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Fair value of scheme assets	461.9	428.9	384.1	363.4	328.4
Present value of defined benefit obligations	(595.7)	(544.8)	(465.4)	(423.9)	(433.2)
Rail franchise adjustment (60%)	78.0	62.9	36.6	13.5	43.6
Adjustment for employee share of RPS deficits (40%)	53.5	46	32.1	24.2	41.9
Deficit in the scheme	(2.3)	(7.0)	(12.6)	(22.8)	(19.3)
Experience gain/(loss) on scheme assets					
- Amount (£m)	6.0	1.8	(12.6)	(1.4)	35.3
- Percentage of scheme assets (%)	2.2	0.7	(5.5)	(0.6)	17.9
Experience gain/(loss) on scheme liabilities					
- Amount (£m)	1.3	(0.6)	2.1	(1.4)	6.7
- Percentage of scheme liabilities (%)	0.4	(0.2)	0.8	(0.6)	2.6

The estimated amounts of contributions expected to be paid to the scheme during the financial year to 31 March 2015 is £26.9m (year to 31 March 2014: £25.0m).

Note

[1] BRASS is the Railway Pension Scheme in-house additional voluntary contribution (AVCs) arrangement.

[2] 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.

22 Pension Scheme (continued)

The pension deficit is what the company expects to fund over the term of the franchise. This is accounted for by the 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	2013
Balance Sheet	£m	£m
Pension deficit	(78.0)	(62.9)
Intangible assets	(0.7)	(2.0)
Deferred taxation	16.5	14.9
Impact on net assets	(62.2)	(50.0)
Profit and loss account		
Unwinding of discount of franchise adjustment	(2.8)	(1.7)
Intangible asset amortisation	1.3	1.3
Deferred taxation	0.3	0.1
Impact on profit for the year	(1.2)	(0.3)
Statement of recognised gains and losses		
Actuarial (gains)/losses on franchise adjustment	(12.3)	(24.7)
Deferred tax on actuarial gains/(losses)	2.5	5.7
	(9.8)	19.0

23 Related party transactions

The company is taking advantage of the exemption under FRS8 not to disclose transactions with wholly owned group companies.

24 Ultimate parent company

The directors regard FirstGroup plc, a company incorporated in Great Britain and registered in Scotland, as the ultimate parent 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 parent company is First Rail Holdings Limited.

Copies of the accounts of FirstGroup plc can be obtained on request from Ground Floor, 50 Eastbourne Terrace, London W2 6LX.