HULL TRAINS COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2014

Company Registered
Number: 03715410

HULL TRAINS COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2014

Contents | **Pages**

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

Principal activities

Hull Trains Company Limited is a non-franchised, open access intercity train company, which operates direct services between Hull and London Kings Cross.

Business review and future prospects

First Hull Trains' is now an established open access pioneer and innovator, with a proven track record of business growth and passenger service excellence delivered safely.

Performance over the last year has been strong, building on solid fleet performance and a new commercial focus. Although a unique, niche operator in the UK rail market, the business benefits from an innovative approach, an ability to move quickly and a team with a wealth of knowledge and experience. Record passenger numbers for the year is underscored by one of the strongest customer service ethos' in the travel market; this includes, market leading industry satisfaction scores and new innovations such as 'mobile tickets', web based journey alerts, and enhanced free WiFi for the benefit of all passengers.

Several strategic enhancements have been established in key areas during the year:

Revenue growth for the year has been above target, delivering a very strong profit performance once again, with the aid of a new commercial focus.

People engagement has been a key focus, as evidenced during the year with 'Investors in People' accreditation and unprecedented 'Your Voice' internal employee survey results.

The senior team has been strengthened with the appointment of a new commercially minded Managing Director and a new, experienced Head of Engineering.

Innovation is not confined to commercial strategy. Instilled within the business has been a new set of business values developed by the people, for the people. This has helped drive a new service promise; 'To provide the best journey experience, and a great place to work'. This more collaborative attitude across the business has helped drive the pace and output, helped by better internal communications and a structured employee feedback process. Part of the new business culture is ensuring that First Hull Trains is recognised for being 'easy to deal with' by customers throughout their First Hull Trains experience, and is extended to web and booking engine improvements, mystery telesales and travel shoppers, internal 'spot check' service audits, and in-service training across the business, including senior management.

In addition, the team have developed, and made successful, local stakeholder engagement throughout the First Hull Trains route. All this is underpinned by the development of a new robust, long-term and sustainable business plan focused on electrification enhancements to the route.

A consistently high achiever in the National Passenger Survey, First Hull Trains use the exceptional results to demonstrate that the customers' voices are heard and steps are taken to address the issues. In most of the service criteria First Hull Trains remain a full 10% above the industry.

An extremely important part of any rail operator's business is safety and a positive safety culture with new processes in place is being championed. New standards and controlled documents have been updated and reconstructed and the safety certificate has been successfully renewed. The ORR cite First Hull Trains as providing best in class performance across many safety areas and ISO5001 Stage 2 is now completed.

Business review and future prospects (continued)

Plans have been driven forward for the electrification of the line between Selby and Hull, gathering partners and support in the local community and from the local government bodies. This is encouraging and means the long-term prospects for First Hull Trains are positive. The current track access agreement with Network Rail expires in December 2016. The company has applied to the Office of Rail Regulation for a track access agreement for three years beyond this date to continue the current level of passenger services. However, electrification and other infrastructure improvements on the Selby to Hull section will provide the ability to offer enhanced services in the medium term.

First Hull Trains are perfectly placed to be at the heart of the City of Culture activity and the boost this will have to the region's economy. The ideal conduit for visitors to Hull, there is scope to draw more people northwards and make the most of increased interest in the city.

The market in which First Hull Trains operates in remains a competitive one, but it has been proven through National Passenger Survey results and continued revenue growth that there is a sound, profitable business model for a niche operator. Employing some of the very best people the rail industry has to offer – a third of whom have been in post for longer than ten years - the business looks forward to the future with a great deal of optimism.

Financial matters

The results for the year are given in the profit and loss account on page 12, which shows an overall profit of £1,652k on turnover of £23,824k for the financial year (2012/13: profit of £400k on turnover of £22,762k). The directors recommended a payment of an interim dividend of £5,000 per share, paid on 28 February 2014 (2012/13: £1,000). No final dividend was recommended (2012/13: £nil).

Key performance indicators

In order to assist in the management of the business the company produces and notes the following key performance indicators. The increase in passenger revenue was 4.7% as compared to the prior year (2012/13: 5.2% increase). The Performance Punctuality Monitor (PPM) moving annual average was 82% (2012/13: 81.8%). The National Passenger Survey satisfaction score for Autumn 2013 was 86% (2012/13: 95%). The Spring 2014 satisfaction score was 96% (2012/13: 95%).

Principal risks and uncertainties

To fully consider both opportunities and risks, the management team consult regularly. Risk is an inherent part of doing business. The management of the risks is based on a balance of risk and reward determined through careful consideration of both the potential likelihood and impact. The principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

Environment and sustainability

The key risk facing the company in this area relates to reducing the environmental impact of the business with a focus on reducing waste and energy usage across its trains and office. A number of initiatives are in place, which are being led by the Safety Management Group to meet our customers' requirements in this area.

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.

Business strategy
If the company adopts the wrong business strategy or does not implement its strategies effectively, the business may be negatively impacted. Strategic risk needs to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders. A clear strategy is in place for fares and train vehicle maintenance, which is regularly monitored.

Colleague engagement, retention and capability
The company employs around 106 colleagues who are critical to the success of our business. Maintaining good relations with colleagues and investing in their training and development is essential to the efficiency and sustainability of the company's operations.

The company's employment policies and remuneration and benefits packages are regularly reviewed and designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the company uses to understand and respond to colleagues' needs. Processes are also in place to identify talent and actively manage succession planning throughout the business.

Economic and market risks
The unprecedented economic slowdown and reducing job security is resulting in an increasing demand for value from customers. Challenges to household/business disposable income and competitor pricing positions can affect the performance of the company in terms of both sales and costs. Focus continues on delivering a punctual service with excellent customer service standards, at a range of fares ensuring value for all our customers. This is achieved through the continuous review of our active management of fare prices, development of sales channels propositions and increased promotion and marketing activity. While external cost pressures affect our business, the company continues to work hard to mitigate the impact of these cost pressures on customers and on our overall profitability through the delivery of cost savings.

Business continuity and acts of terrorism
A major incident or act of terrorism could impact on the company's ability to trade. In the event of a potentially disruptive incident, detailed plans are in place to maintain business continuity.

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. Extensive security controls are 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. Relevant staff undertake intensive training programmes to ensure they are aware of and abide by the levels of service that are required by our 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.

Litigation
The company has three main insurable risks: third party claims arising from passenger accidents, employee injuries and property damage. The company has a very strong focus on safety - it is one of our core values. The size of the company's operations is such that there are a number of low value injury claims which the company self-insures up to certain limits. It purchases insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers.

Financial risk management objectives and policies

The company's principal financial assets are bank balances, trade debtors and receivables from group undertakings. 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. The company does not directly enter into any derivative financial instruments.

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

D Gausby
Director
20 August 2014

4th Floor
Europa House
184 Ferensway
Hull

HU13UT

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

Directors
The directors who held office throughout the year, except as noted, were as follows:
V Barker
C Burrows
K Doughty
W Dunnett (appointed 2 September 2013)
D Gausby
A James
M Jones (resigned 20 August 2014)
J Nelson (resigned 20 August 2014)
R Parry (resigned 5 July 2013)

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.

Going concern
At 31 March 2014 the company had cash at bank and in hand of £12k and net assets including pension liability of £1,619k. The company is party to a group banking arrangement with its immediate parent company, GB Railways Group plc, and its bank balance is transferred daily. The company has instant access to the balance with GB Railways Group plc, which was £3,577k at 31 March 2014.

The directors are aware that the shareholders are exploring options that may result in the disposal of their shares in the company. An information memorandum has been issued and expressions of interest received. Should there be a change in ownership during the forthcoming year this is not expected to change the strategic direction of the company, as set out in the Strategic Report. In particular, the company has applied to the Office of Rail Regulation for a track access agreement for three years from December 2016 to continue the current level of passenger services.

The directors have considered the going concern assumption given the current economic climate and the potential change in its ownership and have reviewed the company forecasts for the foreseeable future.

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

Audit information
Each of the persons who 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 ought to have taken as a director in order to make himself 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 provision of s418 of the Companies Act 2006.

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

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

D Gausby
Director
20 August 2014

4th Floor
Europa House
184 Ferensway
Hull, HU1 3UT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the financial statements for the company in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accountancy 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 those financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the members of Hull Trains Company Limited

We have audited the financial statements of Hull Trains Company 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 cash flow statement, the reconciliation of net cash flow to movement in net funds and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Statement of Directors' Responsibilities, 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 the 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.

Opinion on other matters prescribed in 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.

Independent auditor's report to the members of Hull Trains Company 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 Accountant and Statutory Auditor
London, United Kingdom
20th August 2014

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Turnover	1, 2	23,824	22,762
Operating costs	3	(21,676)	(22,383)
Operating profit on ordinary activities		2,148	379
Net interest receivable and similar income	6	76	84
Profit on ordinary activities before taxation	7	2,224	463
Tax charge on profit on ordinary activities	8	(572)	(63)
Profit for the financial year	15	1,652	400

All activities relate to continuing operations.

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

	2014 £'000	2013 £'000
Profit for the financial year	1,652	400
Actuarial loss relating to the pension scheme	(216)	(439)
UK deferred taxation attributable to actuarial loss	43	101
Effect of change of tax rate on deferred taxation	(26)	(4)
Total recognised gains and losses for the year	1,453	58

BALANCE SHEET
At 31 March 2014

	Notes	£000	2014 £000	£000	2013 £000
Fixed assets					
Tangible assets	9		350		515
Current assets					
Stocks	10	37		26	
Debtors	11	5,406		3,636	
Cash at bank and in hand		12		24	
		5,455		3,686	
Creditors: amounts falling due within one year	12	(3,522)		(2,993)	
Net current assets			1,933		693
Total assets less current liabilities			2,283		1,208
Net assets *excluding* pension liability			2,283		1,208
Pension liability	21		(664)		(547)
Net assets including pension liability			1,619		661
Capital and reserves					
Called up share capital	14		-		-
Profit and loss account	15		1,619		661
Shareholders' funds	17		1,619		661

These financial statements of Hull Trains Company Limited registered number 03715410 were approved by the Board of Directors on 20 August 2014 and were signed on its behalf by:

D Gausby
Director

CASH FLOW STATEMENT
For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	22(a)	481	113
Returns on investment and servicing of finance	22(b)	7	2
Capital expenditure and financial investment	22(c)	-	(13)
Dividend paid		(500)	(100)
(Decrease) / Increase in cash in the year	23	(12)	2

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS
For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
(Decrease) / Increase in cash in year		(12)	2
Movement in net funds in year		(12)	2
Net funds at beginning of year	23	24	22
Net funds at end of year	23	12	24

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 in accordance with United Kingdom Generally Accepted Accounting Practice. They have been prepared on a going concern basis as described in the going concern statement in the Directors' Report on page 7.

(b) 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:

Other plant and equipment - 3 to 8 years straight line

(c) 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.

(d) 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.

(e) 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 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.

1 Principal accounting policies (continued)

(f) Turnover

Turnover includes amounts attributable to the train operating companies ("TOCs"), 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.

(g) 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 share 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.

(h) Pension costs

Company specific schemes

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. 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.

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

2 Turnover and profit on ordinary activities before taxation

Turnover represents the amounts receivable for services supplied to customers during the year.

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.

3 Operating costs

	2014 £000	2013 £000
Raw materials and consumables	3,681	4,143
Staff costs (note 4)	5,117	5,039
Other external charges	12,713	13,034
Depreciation and other amounts written off tangible fixed assets	165	167
	21,676	22,383

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	91	90
Administration	15	17
	106	107

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	4,446	4,391
Social security costs	406	393
Other pension costs	265	255
	5,117	5,039

5 Directors' remuneration

Four directors received remuneration from other group companies, in the current and prior years, details of which are disclosed in their accounts. It is not considered practicable to allocate this between services provided to those companies, and services provided in their capacity as directors to Hull Trains Company Limited.

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

	2014	2013
	£000	£000
Aggregate emoluments (excluding pension contributions)	223	219
Company pension contributions	28	32
	251	251

Retirement benefits accrued to three directors (2013: three) under a defined benefit scheme.

The remuneration of the highest paid director was £103,441, including employer contributions to a defined benefit pension scheme of £14,700 (2013: £87,021 including employer contributions to a defined benefit pension scheme of £15,749).

Compensation for loss of office of £71,334 was paid during the year (2013: £nil).

6 Net interest receivable and similar income

	2014	2013
	£000	£000
Interest receivable and similar income		
Amount received from other group undertakings	7	2
Expected return on pension scheme assets	234	214
	241	216
Interest payable and similar expense		
Interest on pension scheme liabilities	(165)	(132)
Net interest receivable and similar income	76	84

7 Profit on ordinary activities before taxation

	2014	2013
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration		
- For audit of the annual accounts	5	5
Depreciation and other amounts written off tangible fixed assets		
- owned assets	165	167
Rentals payable under operating leases		
- plant and machinery	1,908	2,462
- other operating leases	75	96

No other services were provided by Deloitte LLP in either year.

8 Tax charge on profit on ordinary activities

	2014 £000	2013 £000
Current taxation		
- Group relief payable	500	95
- Adjustment in respect of prior years	7	25
Total current taxation	507	120
Deferred taxation		
- Origination and reversal of timing differences	(8)	(4)
- Effect of decrease in tax rate on opening deferred tax balance	7	1
- Adjustment in respect of prior years	53	(74)
Total deferred taxation	52	(77)
Deferred taxation on pension schemes	19	21
Effect of decrease in tax rate on opening deferred tax balance	(6)	(1)
	13	20
Total tax charge on profit on ordinary activities	572	63

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 in excess of depreciation	0.4	8.7
- Other timing differences	(0.9)	(4.5)
- Utilisation of tax losses brought forward	-	(7.7)
- Prior years' tax charge	0.3	5.4
Current taxation rate for the year	22.8	25.9

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 20% has reduced the deferred tax asset on UK timing differences.

The effective tax rate for the period to 31 March 2015 and 31 March 2016 is expected to reduce accordingly.

9 Tangible fixed assets

	Other plant and equipment £000
Cost	
At 1 April 2013	1,024
Additions	-
At 31 March 2014	1,024
Depreciation	
At 1 April 2013	509
Charge for year	165
At 31 March 2014	674
Net book value	
At 31 March 2014	350
At 31 March 2013	515

10 Stocks

	2014 £000	2013 £000
Spare parts and consumables	13	13
Goods for resale	24	13
	37	26

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

11 Debtors

	2014 £000	2013 £000
Amounts due within one year		
Trade debtors	1,254	1,612
Other debtors	307	330
Prepayments and accrued income	213	290
Amounts owed from group undertakings	3,577	1,297
Deferred tax asset (note 13)	55	107
	5,406	3,636

Amounts owed from the group undertaking, GB Railways Group plc, attracts interest at a money market rate as determined by the current banking provider.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2014

12 Creditors

	2014 £000	2013 £000
Amounts falling due within one year		
Trade creditors	1,523	871
Amounts owed to group undertakings	590	187
Other creditors	428	212
Accruals and deferred income	981	1,723
	3,522	2,993

Amounts owed to group undertakings do not attract interest.

13 Deferred tax

	£000
At 1 April 2013	107
Debited to the profit and loss account	(52)
At 31 March 2014	55

The deferred tax asset consists of the following amounts: -	2014 £000	2013 £000
Depreciation in excess of capital allowances	51	97
Other timing differences	4	10
Included in debtors note 11	55	107

14 Called up share capital

	2014 £	2013 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
100 ordinary shares of £1 each	100	100

15 Profit and loss account

	£000
At 1 April 2013	661
Other recognised losses relating to the year (net)	(199)
Profit for the financial year	1,652
FRS 20 Share based payment charge	5
Dividends paid	(500)
At 31 March 2014	1,619

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2014

16 Dividends

	2014 £000	2013 £000
Amounts recognised as distributions to equity holders in the period:		
Interim dividends for the year ended 31 March 2014 of £5,000 per share (2013: £1,000 per share)	500	100

17 Reconciliation of movements in shareholders' funds

	2014 £000	2013 £000
Profit for the financial year	1,652	400
Other recognised losses relating to the year (net)	(199)	(342)
Dividends paid	(500)	(100)
FRS 20 Share based payment charge	5	6
Increase / (decrease) in shareholders' funds	958	(36)
Opening shareholders' funds	661	697
Closing shareholders' funds	1,619	661

18 Commitments

The company had no capital or any other commitments other than operating leases at 31 March 2014 or at 31 March 2013.

19 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:				
Between two and five years	75	1,908	96	1,910
Total	75	1,908	96	1,910

20 Contingent liabilities

The company is a member of a Value Added Tax ("VAT") group covering a number of subsidiary undertakings. All members of the VAT group are jointly and severally liable in respect of any VAT owed to H M Revenue & Customs.

21 Pension scheme

Defined benefit schemes

The Hull Trains Company Limited shared cost section of the Railways Pension Scheme was established on 1 June 2011. A full actuarial valuation of the section at 31 December 2011 has been completed by independent actuaries.

The actuarial assumptions used in determining this valuation were that the rate of return on investments will be 6.55% per annum, the rate of earnings increase will be 4.23% per annum and the rate of inflation (RPI/CPI) will be 3.2%/2.2% per annum. The valuation was made using the projected unit method and showed a funding shortfall at that time of £420,000.

All eligible employees are offered membership of the Railways Pension Scheme.

Under the terms of the scheme, any fund deficit or surplus is shared by the employer (60%) and the employees (40%).

The actuarial valuation was updated at 31 March 2014. At this date, the market value of the scheme's assets totalled £5.4m (31 March 2013: £5.0m). The actuarial value of these assets was sufficient to cover 80% (31 March 2013: 81%) 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 11.5% for employees (2013: 11.5%) and 17.25% for the employer (2013: 17.25%).

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

	31 March 2014	31 March 2013	31 March 2012
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%

21 Pension scheme (continued)

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

	Expected rate of return			Value		
	31 March 2014	31 March 2013	1 April 2012	31 March 2014 £'000	31 March 2013 £'000	1 April 2012 £'000
Infrastructure	7.50%	8.00%	8.00%	148	141	127
Bonds	4.10%	3.75%	4.25%	754	115	89
Cash Plus	7.50%	8.00%	8.40%	4,179	4,088	3,173
Private Equity	7.50%	8.00%	8.65%	361	340	291
Cash	3.40%	2.80%	3.10%	7	316	45
				5,449	5,000	3,725

"Cash Plus" is a growth fund, which invests in different return seeking assets including equities.

The balance sheet position for the company:

	31 March 2014 £'000	31 March 2013 £'000	1 April 2012 £'000
Total fair value of assets	5,449	5,000	3,725
Present value of scheme liabilities	(6,832)	(6,183)	(4,327)
Deficit in the scheme	(1,383)	(1,183)	(602)
Adjustment for employee share of deficit	553	473	241
Liability recognised in balance sheet	(830)	(710)	(361)
Related deferred tax asset	166	163	87
Net pension liability	(664)	(547)	(274)

Analysis of amount charged to operating profit:

	2014 £'000	2013 £'000
Current service costs	246	235
Total operating charge	246	235

Amounts credited to net finance income:

	2014 £'000	2013 £'000
Expected return on pension scheme assets	234	214
Interest on pension scheme liabilities	(165)	(132)
Net return credited as interest receivable and similar income	69	82

21 Pension scheme (continued)

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

	2014 £'000	2013 £'000
Actual return less expected return on pension scheme assets	(147)	(172)
Experience losses arising on scheme liabilities	(69)	(267)
Total loss recognised in STRGL	(216)	(439)

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

	2014 £'000	2013 £'000
Start of year	6,183	4,327
Current service cost	246	235
Interest cost	165	132
Employee share of change in DBO	331	422
Actuarial loss	57	267
Benefits (paid) / received	(150)	800
End of year	6,832	6,183

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

	2014 £'000	2013 £'000
Start of year	5,000	3,725
Expected return on assets	234	214
Company contributions	273	243
Employee contributions	181	162
Employee share of return on assets	58	28
Actuarial (loss)/gain on assets	(147)	(172)
Benefits (paid) / received	(150)	800
End of year	5,449	5,000

History of experience gains and losses

	2014	2013
Experience (loss) on scheme assets:		
Amount (£000)	(147)	(172)
Percentage of scheme assets (%)	(4.5%)	(5.7%)
Experience gain / (loss) on scheme liabilities:		
Amount (£000)	3	(8)
Percentage of the present value of scheme liabilities (%)	0.1%	(0.2%)

The company expects to contribute approximately £288,000 to its defined benefit scheme in the next financial year (employee contributions: £192,000). The expected benefit payments from the scheme are £153,000.

21 Pension scheme (continued)

Defined contribution pension scheme

Additionally, the company contributions to the money purchase scheme during the year were £18,997 (2013: £20,507). The contributions payable as at 31 March 2014 were £1,021 (2013: £1,760).

22 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	2014 £'000	2013 £'000
Operating profit	2,148	379
Depreciation and other amounts written off tangible fixed assets	165	167
Pension operating charge less cash contributions	(26)	13
Increase in stock	(11)	(1)
(Increase) / decrease in debtors	(1,810)	195
Increase / (decrease) in creditors	10	(646)
FRS 20 Share based payment charge	5	6
Net cash inflow from operating activities	481	113

(b) Returns on investments and servicing of finance	2014 £'000	2013 £'000
Interest received	7	2
Net cash inflow from returns on investments and servicing of finance	7	2

(c) Capital expenditure and financial investment	2014 £'000	2013 £'000
Purchase of tangible fixed assets	-	(13)
Net cash outflow from capital expenditure and financial investment	-	(13)

23 Analysis of net funds

	At 31 March 2013 £000	Cash flow £000	At 31 March 2014 £000
Cash at bank and in hand	24	(12)	12
Net funds	24	(12)	12

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2014

24 Related party transactions

During the year the company entered into the following arrangements with related parties.

GB Railways Group plc
(Immediate parent company)

Group interest received £7,137 (2012/13 – £1,775).

At 31 March 2014 £3,577,024 was payable by GB Railways Group plc to the company (2012/13 – £1,297,094 payable by GB Railways Group plc to the company).

First Rail Holdings Limited
(100% subsidiary of the ultimate parent company)

Contract for support services £1,023,894 (2012/13 - £506,956).

At 31 March 2014 £49,580 (2012/13 - £46,553) was payable by the company to First Rail Holdings Limited.

First/Keolis Transpennine Limited
(55% subsidiary of the ultimate parent company)

Contract for support services £462,379 (2012/13 - £452,505).

At 31 March 2014 £29 (2012/13 - £17,003) was payable by the company to First/Keolis Transpennine Limited.

First Rail Support Limited
(100% subsidiary of the ultimate parent company)

Contract for support services £162,951 (2012/13 - £153,796).

At 31 March 2014 £0 (2012/13 - £4,759) was payable by the company to First Rail Support Limited.

First Greater Western Limited
(100% subsidiary of the ultimate parent company)

Contract for support services £2,110,972 (2012/13 - £1,910,517).

At 31 March 2014 £51,388 (2012/13 - £253,744) was payable by the company to First Greater Western Limited.

First Capital Connect Limited
(100% subsidiary of the ultimate parent company)

Contract for support services £39,786 (2012/13 - £39,581).

At 31 March 2014 £0 (2012/13 - £621) was payable by the company to First Capital Connect Limited.

25 Share based payments

Equity-settled share option plans
The Group recognised total expenses of £4.6m (2013: £5.6m) related to equity-settled share-based payment transactions.

(a) Save as you earn (SAYE)
The Group operates an HMRC 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

(b) Executive share option scheme (ESOS)
Options are exercisable between three and ten years of the date of grant provided that the pre-determined performance criteria are met.

	ESOS 2003 Options Number	ESOS 2004 Options Number
Outstanding at the beginning of the year	258,183	254,426
Bonus element of rights issue	-	57,618
Lapsed during the year	(258,183)	-
Outstanding at the end of the year	-	312,044
Exercisable at the end of the year	-	312,044
Weighted average exercise price as adjusted for bonus element of rights issue (pence)	234.0	224.3
Weighted average share price at date of exercise (pence)	N/A	N/A

25 Share based payments (continued)

(c) 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

(d) Buy As You Earn (BAYE)
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.

25 Share based payments (continued)

(e) 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 to 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	-	-	-	2,926,564
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	2,562,325
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil

25 Share based payments (continued)

The fair values of the options granted during the last two years were measured using a Black-Scholes model. The inputs into the 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.

	2014	2013
Weighted average fair value of options at grant date (pence)		
- DBS	**127.4**	161.9
- SAYE December 2012	**-**	26.0
- SAYE December 2013	**39.5**	-
- LTIP	**81.9**	104.7

26 Ultimate parent company and controlling party

The directors regard FirstGroup plc, a company incorporated in the United Kingdom 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 controlling party is GB Railways Group plc.

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