Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

31 March 2011

First Capital Connect Limited

Report and financial statements 2011

Contents

First Capital Connect Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2011.

Principal activity

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

Business review

FCC runs approximately 90m passenger journeys a year and carries around 160,000 people every weekday, servicing 104 stations of which 78 are operated by FCC. FCC network covers 582km of track. The company's priority is to provide a straightforward, clean and welcoming environment for passengers and staff, whilst striving to improve the quality, punctuality and reliability of the service and maintain the current high safety standards.

We are focused on improving operational performance at FCC. Our driver recruitment and training programme is progressing well and we continue to work closely with Network Rail to address infrastructure issues on the network, which remain challenging. Despite our efforts, the Public Performance Measure (PPM), on a MAA basis, has remained at around 89% throughout the year, partly as a result of significant disruption due to poor autumn and severe winter weather in November and December 2010. Performance on our Thameslink route has improved significantly year on year.

We have invested in a package of measures to improve information to customers and to staff on the front line, principally through an upgrade to our Customer Information System, issuing BlackBerry devices to our revenue protection and station staff teams and the installation of gate line computers for our station based revenue protection teams. We also redeveloped our website to focus on real-time information to customers.

In December 2010, we introduced our new 'More Seats for You' timetable on our Great Northern route to deliver a significant capacity improvement and created over 6,500 extra seats on peak time services connecting Moorgate and King's Cross.

We continue to work with the Department for Transport, Network Rail and other Train Operating Companies to deliver the Thameslink Programme. Scheduled to complete in December 2018, the programme will deliver a service with new, longer trains operating at up to 24 services per hour across London in the morning and evening peaks. During the year ahead we will see the introduction of the first 12 car services in December 2011, with an additional 2,000 seats on services on the Thameslink route and the completion of major station upgrades at Blackfriars, Farringdon and West Hampstead.

We continue to invest in our FCC franchise to deliver a range of improvements. In addition to capacity increases on the Great Northern route and better customer information, we also introduced gate line schemes at Finsbury Park, Harpenden and Leagrave stations, completed refresh and reliability improvements on our Class 319 and made improvements to stations, including cycle facilities, accessibility works and security.

Operating profit was £2.5m which was ahead of expectations and the £1.9m operating loss for 2010. This profit improvement has arisen in spite of all the challenges resulting from the disruptions and changes to the FCC network, including the effects of the Thameslink Programme on the TL route, High Level Output Specification (HLOS) on the GN route and the severe weather encountered at the end of 2010 and early 2011.This move back into profit was achieved through the careful management of costs along with an increase in underlying passenger revenue growth.

Directors' report

Principal risks and uncertainties

Rail franchise agreements

The company is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the rail franchise agreement. This would result in the company losing the right to continue operating the affected operations and consequently, the related revenues or cash flows. The company may also lose some or all of the amounts set aside as security for its performance bond and its season ticket bond. Compliance with franchise conditions are closely managed and monitored on a four weekly basis by senior management and procedures are in place to minimise the risk of non-compliance.

FCC franchise is to March 2015 unless curtailed at the discretion of the Department for Transport. FCC will continue to focus on the addressable cost base in the year ahead and the revenue support from the DfT continues to considerably mitigate the impact of the economic environment on passenger revenues.

Legislation and regulation

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

Labour costs

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

Electricity costs

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

Terrorism

Terrorist acts and the public's concerns about potential attacks could adversely affect demand for our services. More particularly if the company were to be perceived as not taking all reasonable precautions to guard against potential terrorist acts this could adversely affect its reputation with the public. The company has a Head of Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of employees so that they can respond effectively to any perceived threat or incident.

Economy

The level of economic activity affects the number of train journeys taken by passengers in the UK. Any changes in economic activity may impact upon the passenger numbers and hence our operations. The potential impact of this is reduced on the company due to the existence of the revenue support arrangements.

First Capital Connect Limited

Directors' report

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Going concern

The directors have considered the going concern assumption given the current economic climate and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future. The directors have considered the company forecasts and the financial commitment from the parent company in forming this judgement.

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

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

Audit information

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

- as far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418(2) of the Companies Act 2006.

Auditor

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

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

C J Cornthwaite
Director

50 Eastbourne Terrace
Paddington
London
W2 6LG

23 June 2011

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

We have audited the financial statements of First Capital Connect Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholder's funds, the statement of total recognised gains and losses and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statements, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of financial statements

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 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 matters prescribed in the Companies Act 2006

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mark Tolley

Mark Tolley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 JUNE 2011

First Capital Connect Limited

Profit and loss account
Year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Turnover	2	497,688	481,085
Operating costs			
- General		(493,747)	(481,111)
- Restructuring and other exceptional costs	4	-	(525)
- Intangible asset amortisation		(1,433)	(1,433)
Total operating costs	3	(495,180)	(483,069)
Profit/(loss) on ordinary activities before interest		2,508	(1,984)
Net interest receivable	8	3,024	1,027
Profit/(loss) on ordinary activities before taxation	9	5,532	(957)
Tax (charge)/credit on profit/(loss) on ordinary activities	10	(1,711)	177
Profit/(loss) for the year	19	3,821	(780)

All activities relate to continuing operations.

First Capital Connect Limited

Balance sheet
At 31 March 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Fixed assets					
Intangible assets	11		1,435		2,868
Tangible assets	12		14,712		17,697
			16,147		20,565
Current assets					
Stocks	13	5,299		5,367	
Debtors	14	42,453		44,956	
Cash at bank and in hand	15	111,307		112,267	
		159,059		162,590	
Creditors: amounts falling due within one year	16	(157,989)		(169,240)	
Net current assets/(liabilities)			1,070		(6,650)
Total assets less current liabilities			17,217		13,915
Net assets excluding pension liability			17,217		13,915
Pension liability	21		(12,554)		(9,437)
Net assets			4,663		4,478
Financed by:					
Capital and reserves					
Called up share capital	18		-		-
Profit and loss account	19		4,663		4,478
Shareholder's funds			4,663		4,478

The financial statements of First Capital Connect Limited registered number 05281077 were approved by the Board of Directors on 23 June 2011.

Signed on behalf of the Board of Directors

C J Cornthwaite

C J Cornthwaite
Director

First Capital Connect Limited

Reconciliation of movements in shareholder's funds
For the year ended 31 March 2011

	2011 £'000	2010 £'000
Profit/(loss) for the financial year	3,821	(780)
Other recognised losses relating to the year (net)	(3,784)	(2,041)
	37	(2,821)
Share based payment	148	174
Net addition/(reduction) to shareholder's funds	185	(2,647)
Opening shareholder's funds	4,478	7,125
Closing shareholder's funds	4,663	4,478

Statement of total recognised gains and losses
Year ended 31 March 2011

	2011 £'000	2010 £'000
Profit/(loss) for the financial year	3,821	(780)
Actuarial loss relating to the pension scheme	(4,906)	(2,835)
UK deferred taxation attributable to actuarial loss	1,122	794
Total recognised gains and losses for the year	37	(2,821)

Notes to the financial statements
Year ended 31 March 2011

1. Principal accounting policies

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

Basis of preparation

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

Cash flow statement

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost less residual value of tangible fixed assets over their estimated useful economic lives or the duration of the franchise as follows:

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

Intangible fixed assets and depreciation

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

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

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

Intangible pension asset	6 years straight line

Capital grants

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

Leases and hire purchase

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight line basis over the life of the lease.

Government grants and subsidies

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

Stocks

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

Notes to the financial statements
Year ended 31 March 2011

1. Principal accounting policies (continued)

Taxation

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

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

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

Company specific schemes

The company operates a defined benefit scheme which is held in separately administered funds. The amounts charged to 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 adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet.

Turnover

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

Share-based payment

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.

Notes to the financial statements
Year ended 31 March 2011

2. Turnover and profit/(loss) 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/(loss) 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. £29.5m (2010: £39.7m) of revenue support was receivable in the year.

3. Operating costs

	Notes	2011 £'000	2010 £'000
Raw materials and consumables		11,810	12,919
Staff costs	5	103,628	89,990
Other external charges		209,760	223,275
Franchise payments		156,695	145,334
Restructuring and other exceptional costs	4	-	525
Depreciation and other amounts written off tangible and intangible fixed assets		14,089	11,600
Capital grants		(802)	(574)
		495,180	483,069

4. Restructuring and other exceptional costs

No further restructuring costs were charged to the profit and loss account (2010: £0.5m). The tax effect of these exceptional items was £nil (2010: credit of £0.1m).

5. Employee numbers and costs

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

	2011 No.	2010 No.
Operations	771	704
Engineering	525	529
Customer services	830	847
Administration	141	144
	2,267	2,224

Revenue Protection staff moved from Commercial to Customer services during the year. Staff numbers have been restated for 2010. The aggregate payroll costs of these persons were as follows:

	2011 £'000	2010 £'000
Wages and salaries	87,848	78,122
Social security costs	6,413	5,739
Other pension costs	9,367	6,129
	103,628	89,990

Notes to the financial statements
Year ended 31 March 2011

6. Directors' remuneration

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

The remuneration of the directors during the year paid by First Capital Connect Limited was as follows:

	2011 £'000	2010 £'000
Aggregate emoluments (excluding pension contributions)	1,296	1,066
Compensation for loss of office	99	-

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

8 (2010: 6) directors are members of a defined benefit pension scheme.

The emoluments of the highest paid director amounted to:

	2011 £'000	2010 £'000
Aggregate emoluments	299	149
Compensation for loss of office	-	-
Defined benefit scheme		
Accrued pension at end of year	5	50
Accrued lump sum at end of year	3	37

7. Share-based payments

Save as you earn (SAYE)

The company's ultimate parent company operates an Inland Revenue approved savings related share option scheme. Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007, December 2008, December 2009 and December 2010. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period. Share save accounts are held with Yorkshire Building Society. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

Notes to the financial statements
Year ended 31 March 2011

7. Share-based payments (continued)

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

	SAYE December 2010 Options No.	SAYE December 2009 Options No.	SAYE December 2008 Options No.	SAYE December 2007 Options No.
Outstanding at beginning of the year	-	2,900,694	2,224,615	1,514,616
Granted during the year	2,999,495	-	-	-
Exercised during the year	-	(3,093)	(2,878)	(1,595)
Lapsed during the year	(33,882)	(271,508)	(272,935)	(1,389,721)
Outstanding at the end of the year	**2,965,613**	**2,626,093**	**1,948,802**	**123,300**
Exercisable at the end of the year	-	-	-	123,300
Weighted average exercise price (pence)	319.0	310.0	371.0	583.0
Weighted average share price at date of exercise (pence)	N/A	369.3	382.1	376.8

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

	SAYE 2011 Dec 2010	SAYE 2010 Dec 2009
Weighted average share price (pence)	387.0	395.0
Weighted average exercise price (pence)	319.0	310.0
Expected volatility	35%	35%
Expected life	3 years	3 Years
Risk-free rate	1.4%	2.0%
Expected dividend yield	4.8%	4.8%

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

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% p.a. pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for the pre-vesting forfeitures.

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

The group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total expense of £148,000 (2010: £174,000) relating to equity-settled share-based payment transactions.

Notes to the financial statements
Year ended 31 March 2011

8. Net interest receivable and similar charges

	2011 £'000	2010 £'000
Interest payable		
Amounts payable to other group undertakings	(96)	(69)
Interest on pension scheme liabilities	(7,075)	(6,143)
	(7,171)	(6,212)
Interest receivable		
Bank interest	386	338
Return on pension scheme assets	9,809	6,901
	10,195	7,239
Net interest receivable	3,024	1,027

9. Profit/(loss) on ordinary activities before taxation

	2011 £'000	2010 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of company's annual accounts	100	100
- Deloitte LLP non-audit fee for other services	4	4
Depreciation and other amounts written off tangible fixed assets		
- owned assets	12,656	10,167
Amortisation of intangible asset	1,433	1,433
Rentals payable under operating leases		
- plant and machinery	39,805	38,636
- other operating leases	62,222	62,883
Net rents receivable from property	(1,077)	(1,159)

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2011

10. Tax charge/(credit) on profit/(loss) on ordinary activities

	2011 £'000	2010 £'000
Current taxation		
- UK corporation tax	2,624	-
- Group relief payable	-	1,007
- Adjustment in respect of prior year	(99)	131
Total current taxation	2,525	1,138
Deferred taxation		
- Origination and reversal of timing differences	(773)	(1,231)
- Adjustment in respect of prior year	161	(31)
- Effect of decrease in tax rate on opening deferred tax balance	28	-
	(584)	(1,262)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	(259)	(53)
- Effect of decrease in tax rate on opening deferred tax balance	29	-
	(230)	(53)
Total deferred taxation	(814)	(1,315)
Total tax charge/(credit) on profit/(loss) on ordinary activities	1,711	(177)

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 28% (2010: 28%). 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:

	2011 %	2010 %
Standard rate of taxation	28.0	28.0
Factors affecting charge		
- Expenses not deductible for tax purposes	-	0.9
- Capital allowances less than / (in excess of) depreciation	13.6	(124.4)
- Other timing differences	5.8	(9.7)
- Adjustment in respect of prior year	(1.8)	(13.7)
Current taxation rate for the year	45.6	(118.9)

The UK corporation tax rate reduced from 28% to 26% with effect from April 2011. As the rate change was substantively enacted by the balance sheet date, the effect of the reduction in the UK corporation tax rate was to reduce the deferred tax balance on UK timing differences. The effective tax rate for the period to 31 March 2012 is expected to reduce accordingly.

The UK Government has also announced their intention to subsequently reduce the UK corporation tax rate by 1% per annum to 23% with effect from April 2014. This is likely to have the effect of reducing the effective rate in future years.

Notes to the financial statements
Year ended 31 March 2011

11. Intangible fixed assets

	Pension asset £'000
Cost	
At 1 April 2010 and 31 March 2011	8,600
Amortisation	
At 1 April 2010	5,732
Charge for year	1,433
At 31 March 2011	7,165
Net book value	
At 31 March 2011	1,435
At 31 March 2010	2,868

First Capital Connect Limited set up an intangible pension asset to the value of £8.6m, equivalent to the value of the deficit under FRS17 on commencement of the franchise, in order to offset the liability arising prior to the franchise term. This asset has been capitalised and is being written off on a straight line basis over six years.

12. Tangible fixed assets

	Heavy maintenance examinations £'000	Other plant and equipment £'000	Total £'000
Cost			
At 1 April 2010	15,494	23,134	38,628
Additions	4,685	4,986	9,671
At 31 March 2011	20,179	28,120	48,299
Depreciation			
At 1 April 2010	9,804	11,127	20,931
Charge for the year	5,707	6,949	12,656
At 31 March 2011	15,511	18,076	33,587
Net book value			
At 31 March 2011	4,668	10,044	14,712
At 31 March 2010	5,690	12,007	17,697

Notes to the financial statements
Year ended 31 March 2011

13. Stocks

	2011 £'000	2010 £'000
Spare parts and consumables	5,299	5,367

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

14. Debtors

		2011 £'000	2010 £'000
Amounts falling due within one year:			
Trade debtors		35,638	38,841
VAT		2,140	2,518
Deferred tax asset	**Note 17**	1,133	549
Other debtors		325	99
Other prepayments and accrued income		3,217	2,949
		42,453	44,956

15. Cash at bank and in hand

	2011 £'000	2010 £'000
Bank deposits	111,307	112,267

Bank deposits include ring-fenced cash of £97.6m (2010: £112.3m). Under the terms of the franchise agreement, cash can only be distributed by the company either up to the amount of the retained earnings or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

16. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	41,495	36,064
Amounts owed to group undertakings	28,151	36,780
Group tax relief	1,691	735
Other tax and social security	3,995	3,529
Other creditors	42,258	47,367
Accruals and deferred income	40,399	44,765
	157,989	169,240

Amounts owed to group undertakings include a loan of £25m (2010: £35m) from FirstGroup plc. The loan is repayable on demand to the extent that the company is not in breach of its financial ratios defined in its franchise agreement. The interest rate on the loan is LIBOR plus 2.5%.

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2011

17. Provisions for liabilities and charges

		£'000
Deferred tax asset		
As at 1 April 2010		549
Credited to profit and loss account		584
At 31 March 2011	**Note 14**	1,133

The deferred tax asset consists of the following amounts:

	2011 £'000	2010 £'000
Capital allowances in excess of depreciation	938	(548)
Other timing differences	195	1,097
Deferred tax asset	1,133	549

18. Called up share capital

	2011 £	2010 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

19. Profit and loss account

	£'000
At 1 April 2010	4,478
Share based payment	148
Retained profit for the year	3,821
Profit and loss reserve excluding pension liability for the year	8,447
Actuarial loss relating to the pension scheme	(4,906)
UK deferred taxation attributable to actuarial loss	1,122
At 31 March 2011	4,663

20. Commitments

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

	2011 £'000	2010 £'000
Contracted for but not provided	508	1,658

Operating leases

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

	2011 Land and buildings £'000	2011 Other £'000	2010 Land and buildings £'000	2010 Other £'000
Operating leases which expire:				
Within one year	367	214	-	1,497
Between two and five years	654	90,683	628	103,639
	1,021	**90,897**	**628**	**105,136**

21. Pension scheme

Railways Pension Scheme – First Capital Connect Section

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railway Pension Scheme. The valuation of the scheme was carried out by independent actuaries at 31 December 2007 in respect of the costs used in these financial statements. The actuarial valuation was updated for 31 March 2011; at this date the market value of the scheme's assets totalled £210.3m. The actuarial value of these assets was sufficient to cover 84.6% (2010: 74.0%) of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 10.5% for employees and 15.75% for employers.

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of return on investments will be 7.1% per annum; the rate of earnings increase will be 4.2% per annum and the rate of inflation will be 3.2% per annum. The valuation was made using the projected unit method.

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

21. Pension scheme (continued)

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

	2011 £'000	2010 £'000	2009 £'000
Rate of increase in salaries	4.2%	4.40%	4.10%
Rate of increase of pensions in payment	2.4%	3.40%	2.60%
Rate of increase of pensions in deferment	2.4%	3.40%	2.60%
Discount rate	5.5%	5.60%	6.75%
Inflation assumption	3.2%	3.40%	2.60%

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

	Expected rate of return			Value		
	2011	2010	2009	2011 £'000	2010 £'000	2009 £'000
Equities	n/a	9.05%	8.65%	-	125,079	83,498
Bonds	5.20%	5.30%	6.50%	10,329	19,047	14,490
Property	6.85%	7.60%	6.80%	-	16,163	13,702
Cash Plus	8.85%	n/a	n/a	163,159	-	-
Private Equity	9.00%	n/a	n/a	24,664	-	-
Other	7.50%	8.53%	8.36%	12,121	28,091	25,951
				210,273	188,380	137,641

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.

During the year the Government announced its intention to change the measure that it uses for cost of living increases to public sector pensions and to change the basis for the statutory revaluation and indexation of occupational pension schemes in the private sector. Increases to pensions in payment and deferred pensions in the Railway Pension Scheme are expected to be linked to the rise in CPI in future rather than the rise in RPI. As a result of this pension liabilities are £1.1m lower as at 31 March 2011.

The balance sheet position for the company:

	2011 £'000	2010 £'000	2009 £'000
Total fair value of assets	210,273	188,380	137,641
Present value of scheme liabilities	(248,534)	(254,408)	(174,419)
Deficit in the scheme	(38,261)	(66,028)	(36,778)
Rail franchise adjustment	6,706	27,873	11,863
Adjustment for employee share of deficit	15,095	26,164	14,517
Liability recognised in balance sheet	(16,460)	(11,991)	(10,398)
Related deferred tax asset	3,906	2,554	1,707
Net pension liability	(12,554)	(9,437)	(8,691)

Notes to the financial statements
Year ended 31 March 2011

21. Pension scheme (continued)

Analysis of amount charged to operating profit:

	2011 £'000	2010 £'000
Current service costs	9,367	6,129
Total operating charge	9,367	6,129

Amounts credited to net finance income:

	2011 £'000	2010 £'000
Expected return on pension scheme assets	9,809	6,901
Interest on pension scheme liabilities	(7,075)	(6,143)
Net return credited as finance income	2,734	758

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

	2011 £'000	2010 £'000
Actual return less expected return on pension scheme assets	(1,198)	20,752
Experience gains/(losses) arising on scheme liabilities	18,215	(38,799)
Actuarial (loss) / gain due to franchise adjustments after cost sharing	(21,923)	15,212
Total loss recognised in STRGL	(4,906)	(2,835)

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

	2011 £'000	2010 £'000
Start of year	254,408	174,419
Current service cost	9,367	6,129
Brass contribution adjustment	(200)	(300)
Interest cost	7,831	6,944
Employee share of change in DBO (not attributable to franchise adjustment)	(677)	34,480
Actuarial loss / (gain)	(18,215)	38,646
Benefit payments	(3,980)	(5,910)
End of year	248,534	254,408

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Year ended 31 March 2011

21. Pension scheme (continued)

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

	2011 £'000	2010 £'000	2009 £'000
Balance sheet			
Pension deficit	(6,706)	(27,873)	(11,863)
Intangible assets	(1,435)	(2,868)	(4,301)
Deferred taxation	2,117	8,607	4,526
Impact on net assets	(6,024)	(22,134)	(11,638)
Income statement			
Unwinding of discount on franchise adjustment	(756)	(801)	433
Intangible asset amortisation	1,433	1,433	1,433
Deferred taxation	(790)	(177)	(522)
Impact on profit for the period from continuing operations	(113)	455	1,344
Statement of recognised income and expense			
Actuarial (gains)/losses on franchise adjustment	21,923	(15,212)	(20,346)
Deferred tax on actuarial (gains)/losses	(5,700)	4,259	5,697
	16,223	(10,953)	(14,649)

22. Related party transactions

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

23. Ultimate parent company

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

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

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