Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

31 March 2012

First Capital Connect Limited

Report and financial statements 2012

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First Capital Connect Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2012

Principal activity

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

Business review

FCC runs approximately 100m passenger journeys a year and carries around 170,000 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

The focus for FCC during the year has been the preparation for and delivery of the major change programmes by continuing to drive further improvement across the business Improved engagement and communication with our staff, customers and stakeholders has helped us deliver improvements in customer satisfaction and employee engagement (both achieving record results)

Our operating performance also improved with the Public Performance Measurement (PPM) of reliability and punctuality at 90 0% (2011 89 3%) on a Moving Annual Average (MAA) basis which is one of the key performance indicators for the business

A significant highlight last year was the successful delivery of the initial stage of the TL Programme providing the first 12-carriage services on the TL route in December 2011 Refurbishment and transformation work was on going at various stations along the route, as part of the programme of upgrades We worked together with Network Rail and Transport for London (TfL) to successfully reopen Blackfriars station, the first ever cross-river hub with a new link to London Underground and an exit on the South Bank The transport minister joined us in opening a dedicated ticket hall and longer 12-car platforms at Farringdon station in December, and we also supported the introduction of a new station at West Hampstead

On the GN route, where we have significantly increased capacity, we added a further 2,200 seats on weekdays through our 'More Seats for You' initiative We introduced 12-car services on the route and in March 2012 our customers began using the impressive new concourse at London King's Cross station

During the year the Department for Transport (DfT) announced that the end date for the FCC franchise has been brought forward to September 2013 This provides the best opportunity in the major TL transformation programme to allow an effective transition to a potential new franchisee, particularly in relation to the introduction of new rolling stock which will be completed after the end date of the current franchise Our unrivalled knowledge and experience of managing this major project gives us a strong foundation to continue to help deliver this important programme in the future

Profit on ordinary activities before interest was £3 6m (2011 £2 5m) which was ahead of expectations The profit improvement has arisen in spite of all the challenges resulting from the disruptions and changes to the FCC network, including the effects of the TL Programme on the TL route and the High Level Output Specification (HLOS) on the GN route This improved profit was achieved through the careful management of costs along with an increase in underlying passenger revenue growth, which offset the increased franchise payments of £32 1m due to the DfT

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

First Capital Connect Limited

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

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

Financial matters

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

The directors have not recommended payment of a final dividend (2011 £nil) An interim dividend of £5m was paid in the year (2011 £nil)

Supplier payment policy

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions A number of significant purchases such as commitments under certain operating leases are paid by direct debit At 31 March 2012 the company had 28 days' purchases outstanding (2011 27 days)

Financial instruments

The company's principal financial assets are bank balances and trade debtors The company's credit risk is primarily attributable to its trade debtors The amounts presented in the balance sheet are net of provisions for doubtful debts The company has no significant concentration of credit risk, with exposure spread over a large number of customers The credit risk on liquid funds is limited because the counterparties are banks Although certain risks, for example utility price, are hedged on a group basis, the company does not directly enter into any derivative financial instruments

Directors

The directors who held office throughout the year are as follows

David Gausby
Hugh Clancy
Clive Burrows
Neal Lawson
Christopher Cornthwaite
David Statham
Jacqueline Townsend
Laura Dunley
Michael Barker
Jonathan Bridgewood

Directors appointed during the year

Lee Archer	(appointed 4 October 2011)
Vernon Barker	(appointed 4 October 2011)
Keith Jipps	(appointed 5 December 2011)

A director resigned during the year

Michelle Smart	(resigned 5 October 2011)

Employee involvement

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

First Capital Connect Limited

Directors' report

Disabled persons

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

Going concern

The directors have considered the going concern assumption given the current economic climate and the franchise curtailment to 15 September 2013 as confirmed by the DfT and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future, being at least 12 months from the date of approving these financial statements The directors have considered the company forecasts and the financial commitment from the parent company in forming this judgement

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

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

Audit information

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

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

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

Auditor

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

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

C J Cornthwaite
Director

50 Eastbourne Terrace
Paddington
London
W2 6LG

21 June 2012

First Capital Connect Limited

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

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

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

We have audited the financial statements of First Capital Connect Limited for the year ended 31 March 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the reconciliation of movement in shareholder's funds and the related notes 1 to 22 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practice Board's (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 2012 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
21 June 2012

First Capital Connect Limited

Profit and loss account
Year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	547,755	497,688
Operating costs	3	(544,165)	(495,180)
Profit on ordinary activities before interest		3,590	2,508
Net interest receivable	7	3,759	3,024
Profit on ordinary activities before taxation	8	7,349	5,532
Tax charge on profit on ordinary activities	9	(2,420)	(1,711)
Profit for the year	18	4,929	3,821

All activities relate to continuing operations

Statement of total recognised gains and losses
Year ended 31 March 2012

	2012 £'000	2011 £'000
Profit for the financial year	4,929	3,821
Actuarial gain/(loss) relating to the pension scheme	11,133	(4,906)
UK deferred taxation attributable to actuarial gain/(loss)	(2,924)	1,122
Total recognised gains and losses for the year	13,138	37

First Capital Connect Limited

Balance sheet
At 31 March 2012

	Notes	£'000	2012 £'000	£'000	2011 £'000
Fixed assets					
Intangible assets	10		-		1,435
Tangible assets	11		13,086		14,712
			13,086		16,147
Current assets					
Stocks	12	5,394		5,299	
Debtors	13	43,343		42,453	
Cash at bank and in hand	14	109,552		111,307	
		158,289		159,059	
Creditors: amounts falling due within one year	15	(155,271)		(157,989)	
Net current assets			3,018		1,070
Total assets less current liabilities			16,104		17,217
Net assets excluding pension liability			16,104		17,217
Pension liability	20		(3,152)		(12,554)
Net assets			12,952		4,663
Financed by:					
Capital and reserves					
Called up share capital	17		-		-
Profit and loss account	18		12,952		4,663
Shareholder's funds			12,952		4,663

The financial statements of First Capital Connect Limited registered number 05281077 were approved by the Board of Directors on 21 June 2012

Signed on behalf of the Board of Directors

C J Cornthwaite
Director

First Capital Connect Limited

Reconciliation of movements in shareholder's funds
For the year ended 31 March 2012

	2012 £'000	2011 £'000
Profit for the financial year	4,929	3,821
Other recognised gains/(losses) relating to the year (net)	8,209	(3,784)
Dividends paid	(5,000)	-
	8,138	37
Share based payments	151	148
Net addition to shareholder's funds	8,289	185
Opening shareholder's funds	4,663	4,478
Closing shareholder's funds	12,952	4,663

Notes to the financial statements
Year ended 31 March 2012

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 whichever is shorter as follows

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

Intangible fixed assets and depreciation

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

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

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

Intangible pension asset	6 years straight line

Capital grants

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

Leases and hire purchase

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

Government grants and subsidies

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

Stocks

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

Notes to the financial statements
Year ended 31 March 2012

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 within net interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

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

Turnover

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

Share-based 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 2012

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 £33 3m (2011 £29 5m) of revenue support was receivable in the year

3. Operating costs

	Notes	2012 £'000	2011 £'000
Raw materials and consumables		11,098	11,810
Staff costs	4	107,272	103,628
Other external charges		227,114	209,760
Franchise payments		188,768	156,695
Depreciation and other amounts written off tangible and intangible fixed assets		10,543	14,089
Capital grants		(630)	(802)
		544,165	495,180

4. Employee numbers and costs

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

	2012 No.	2011 No.
Operations	777	771
Engineering	542	525
Customer services	879	830
Administration	137	141
	2,335	2,267

The aggregate payroll costs of these persons were as follows

	2012 £'000	2011 £'000
Wages and salaries	90,345	87,848
Social security costs	7,344	6,413
Other pension costs	9,583	9,367
	107,272	103,628

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Notes to the financial statements
Year ended 31 March 2012

5. 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

	2012 £'000	2011 £'000
Aggregate emoluments (excluding pension contributions)	1,426	1,296
Compensation for loss of office	57	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

9 (2011 8) directors are members of a defined benefit pension scheme

The emoluments of the highest paid director amounted to

	2012 £'000	2011 £'000
Aggregate emoluments	317	299
Defined benefit scheme		
Accrued pension at end of year	8	5
Accrued lump sum at end of year	5	3

6 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, December 2010 and December 2011 The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period Share save accounts are held with Yorkshire Building Society The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months

6. Share-based payments (continued)

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

	SAYE December 2011 Options No.	SAYE December 2010 Options No	SAYE December 2009 Options No.	SAYE December 2008 Options No
Outstanding at beginning of the year	-	2,965,613	2,626,093	1,948,802
Granted during the year	2,947,057	-	-	-
Exercised during the year	-	(846)	(4,327)	(1,726)
Lapsed during the year	(39,293)	(295,487)	(285,598)	(141,266)
Outstanding at the end of the year	**2,907,764**	**2,669,280**	**2,336,168**	**1,805,810**
Exercisable at the end of the year	-	-	-	1,805,810
Weighted average exercise price (pence)	271 5	319 0	310 0	371 0
Weighted average share price at date of exercise (pence)	N/A	316 2	325 5	319 5

The inputs into the Black-Scholes model are as follows

	SAYE 2011 Dec 2011	SAYE 2010 Dec 2010
Weighted average share price (pence)	319 20	387 0
Weighted average exercise price (pence)	271 50	319 0
Expected volatility	35%	35%
Expected life	3 years	3 years
Risk-free rate	0 6%	1 4%
Expected dividend yield	7 0%	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 £151,000 (2011 £148,000) relating to equity-settled share-based payment transactions

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2012

7. Net interest receivable

	2012 £'000	2011 £'000
Interest payable and similar charges		
Amounts payable to other group undertakings	(87)	(96)
Interest on pension scheme liabilities	(7,766)	(7,075)
	(7,853)	(7,171)
Interest receivable and similar income		
Bank interest	508	386
Expected return on pension scheme assets	11,104	9,809
	11,612	10,195
Net interest receivable	3,759	3,024

8 Profit on ordinary activities before taxation

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of company's annual accounts	100	100
- Deloitte LLP non-audit fee for other services	4	4
Depreciation and other amounts written off tangible fixed assets		
- owned assets	9,108	12,656
Amortisation of intangible asset	1,435	1,433
Rentals payable under operating leases		
- plant and machinery	41,530	39,805
- other operating leases	65,380	62,222
Net rents receivable from property	(1,262)	(1,077)

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2012

9. Tax charge on profit on ordinary activities

	2012 £'000	2011 £'000
Current taxation		
- UK corporation tax	2,182	2,624
- Adjustment in respect of prior year	719	(99)
Total current taxation	2,901	2,525
Deferred taxation		
- Origination and reversal of timing differences	(155)	(773)
- Adjustment in respect of prior year	(434)	161
- Effect of decrease in tax rate on opening deferred tax balance	121	28
	(468)	(584)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	(61)	(259)
- Effect of decrease in tax rate on opening deferred tax balance	48	29
	(13)	(230)
Total deferred taxation	(481)	(814)
Total tax charge on profit on ordinary activities	2,420	1,711

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 26% (2011 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

	2012 %	2011 %
Standard rate of taxation	26 0	28 0
Factors affecting charge		
- Capital allowances less than depreciation	2 3	13 6
- Other timing differences	1 4	5 8
- Adjustment in respect of prior year	9 8	(1 8)
Current taxation rate for the year	39 5	45 6

A resolution passed by Parliament on 26 March 2012 has reduced the main rate of UK corporation tax to 24% from April 2012 The impact of this rate reduction has reduced the deferred tax liability on UK timing differences

Legislation to reduce the main rate of UK corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Bill 2012 Further reductions to the main rate of UK corporation tax are proposed to reduce rate to 22% from 1 April 2014 None of these expected future rate reductions had been substantively enacted at the balance sheet date and therefore not included in these financial statements

The effective tax rate for the period to 31 March 2013 and 31 March 2014 is expected to reduce accordingly

Notes to the financial statements
Year ended 31 March 2012

10. Intangible fixed assets

	Pension asset £'000
Cost	
At 1 April 2011 and 31 March 2012	8,600
Amortisation	
At 1 April 2011	7,165
Charge for year	1,435
At 31 March 2012	8,600
Net book value	
At 31 March 2012	-
At 31 March 2011	1,435

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

11. Tangible fixed assets

	Heavy maintenance examinations £'000	Other plant and equipment £'000	Total £'000
Cost			
At 1 April 2011	20,179	28,120	48,299
Additions	2,472	5,010	7,482
Disposals	(8,715)	-	(8,715)
At 31 March 2012	13,936	33,130	47,066
Depreciation			
At 1 April 2011	15,511	18,076	33,587
Charge for the year	4,441	4,667	9,108
Disposals	(8,715)	-	(8,715)
At 31 March 2012	11,237	22,743	33,980
Net book value			
At 31 March 2012	2,699	10,387	13,086
At 31 March 2011	4,668	10,044	14,712

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2012

12. Stocks

	2012 £'000	2011 £'000
Spare parts and consumables	5,394	5,299

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

13. Debtors

		2012 £'000	2011 £'000
Amounts falling due within one year:			
Trade debtors		33,976	35,638
VAT		2,721	2,140
Deferred tax asset	**Note 16**	1,601	1,133
Other debtors		280	325
Other prepayments and accrued income		4,765	3,217
		43,343	42,453

14 Cash at bank and in hand

	2012 £'000	2011 £'000
Bank deposits	109,552	111,307

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

15. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	46,393	41,495
Amounts owed to group undertakings	26,608	28,151
Group tax relief	2,192	1,691
Other tax and social security	2,777	3,995
Other creditors	49,407	42,258
Accruals and deferred income	27,894	40,399
	155,271	157,989

Amounts owed to group undertakings include a loan of £25m (2011 £25m) from FirstGroup plc The loan is repayable on demand to the extent that the company is not in breach of its financial ratios defined in its franchise agreement The interest rate on the loan is LIBOR plus 2 5%

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2012

16. Deferred tax asset

		£'000
As at 1 April 2011		1,133
Credited to profit and loss account		468
At 31 March 2012	Note 13	1,601

The deferred tax asset consists of the following amounts

	2012 £'000	2011 £'000
Capital allowances in excess of depreciation	252	938
Other timing differences	1,349	195
Deferred tax asset	1,601	1,133

17. Called up share capital

	2012 £	2011 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

18. Profit and loss account

	£'000
At 1 April 2011	4,663
Share based payments	151
Dividends paid	(5,000)
Retained profit for the year	4,929
Profit and loss reserve excluding pension liability for the year	4,743
Actuarial gain relating to the pension scheme	11,133
UK deferred taxation attributable to actuarial gain	(2,924)
At 31 March 2012	12,952

Notes to the financial statements
Year ended 31 March 2012

19. Commitments

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

	2012 £'000	2011 £'000
Contracted for but not provided	640	508

Operating leases

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

	2012 Land and buildings £'000	2012 Other £'000	2011 Land and buildings £'000	2011 Other £'000
Operating leases which expire				
Within one year	-	-	367	214
Between two and five years	1,344	114,089	654	90,683
	1,344	114,089	1,021	90,897

20. Pension scheme

Railways Pension Scheme – First Capital Connect Section

The company is a member of a defined benefit pension scheme, which is funded All eligible employees are offered membership of the Railway Pension Scheme The valuation of the scheme was carried out by independent actuaries at 31 December 2010 in respect of the costs used in these financial statements The actuarial valuation was updated for 31 March 2012, at this date the market value of the scheme's assets totalled £222 1m The actuarial value of these assets was sufficient to cover 79 2 % (2011 84 6%) of the benefits, which had accrued to the scheme's members

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

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

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

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2012

20. Pension scheme (continued)

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

	2012 £'000	2011 £'000	2010 £'000
Rate of increase in salaries	3 75%	4 2%	4 40%
Rate of increase of pensions in payment	1 75%	2 4%	3 40%
Rate of increase of pensions in deferment	1 75%	2 4%	3 40%
Discount rate	4 65%	5 5%	5 60%
Inflation assumption - RPI	2 75%	3 2%	3 40%
Inflation assumption – CPI	1 75%	2 4%	-

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

	Expected rate of return			Value		
	2012	2011	2010	2012 £'000	2011 £'000	2010 £'000
Equities	n/a	n/a	9 05%	-	-	125,079
Bonds	4 25%	5 20%	5 30%	10,923	10,329	19,047
Property	6 40%	6 85%	7 60%	-	-	16,163
Cash Plus	8 40%	8 85%	n/a	172,766	163,159	-
Private Equity	8 65%	9 00%	n/a	27,420	24,664	-
Other	7 72%	7 50%	8 53%	11,019	12,121	28,091
				222,128	210,273	188,380

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

The balance sheet position for the company

	2012 £'000	2011 £'000	2010 £'000
Total fair value of assets	222,128	210,273	188,380
Present value of scheme liabilities	(280,505)	(248,534)	(254,408)
Deficit in the scheme	(58,377)	(38,261)	(66,028)
Rail franchise adjustment	31,198	6,706	27,873
Adjustment for employee share of deficit	23,032	15,095	26,164
Liability recognised in balance sheet	(4,147)	(16,460)	(11,991)
Related deferred tax asset	995	3,906	2,554
Net pension liability	(3,152)	(12,554)	(9,437)

Notes to the financial statements
Year ended 31 March 2012

20. Pension scheme (continued)

Analysis of amount charged to operating profit

	2012 £'000	2011 £'000
Current service costs	9,583	9,367
Total operating charge	9,583	9,367

Amounts credited to net finance income

	2012 £'000	2011 £'000
Expected return on pension scheme assets	11,104	9,809
Interest on pension scheme liabilities	(7,766)	(7,075)
Net return credited as finance income	3,338	2,734

Amounts recognised in the statement of total recognised gains and losses

	2012 £'000	2011 £'000
Actual return less expected return on pension scheme assets	(8,854)	(1,198)
Experience (losses) / gains arising on scheme liabilities	(4,143)	18,215
Actuarial gain/ (loss) due to franchise adjustments after cost sharing	24,130	(21,923)
Total gain /(loss) recognised in STRGL	11,133	(4,906)

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

	2012 £'000	2011 £'000
Start of year	248,534	254,408
Current service cost	9,583	9,367
Brass contribution adjustment	(234)	(200)
Interest cost	8,135	7,831
Employee share of change in DBO (not attributable to franchise adjustment)	14,478	(677)
Actuarial loss / (gain)	3,999	(18,215)
Benefit payments	(3,990)	(3,980)
End of year	280,505	248,534

Notes to the financial statements
Year ended 31 March 2012

20. Pension scheme (continued)

Movements in the fair value of scheme assets were as follows

	2012 £'000	2011 £'000
Start of year	210,273	188,380
Expected return on assets	11,104	9,809
Company contributions	7,447	7,072
Brass contributions	(234)	(200)
Employee contributions	4,882	4,650
Employee share of return on assets	1,500	5,740
Actuarial loss on assets	(8,854)	(1,198)
Benefits paid from schemes	(3,990)	(3,980)
End of year	222,128	210,273

Movements in the franchise adjustment were as follows

	2012 £'000	2011 £'000
Start of year	(11,180)	(46,458)
Interest on franchise adjustment	(369)	(756)
Employee share of change in DBO	(16,332)	14,111
Actuarial (gain)/loss on franchise adjustment	(24,130)	21,923
End of year	(52,011)	(11,180)

History of experience gains and losses

	2012	2011	2010	2009	2008
Experience (gain) or loss on scheme assets					
Amount (£000)	8,854	1,198	(20,752)	39,936	11,125
Percentage of scheme assets (%)	6 6%	0 9%	(18 4%)	48 4%	10 1%
Experience (gain) or loss on scheme liabilities					
Amount (£000)	67	1,974	(5,199)	(8,556)	3,031
Percentage of the present value of scheme liabilities (%)	-	1 3%	(3 4%)	(8 2%)	2 8%
Experience (gain) or loss on scheme liabilities after franchise adjustment					
Amount (£000)	(24,063)	23,896	(20,411)	(28,903)	5,792
Percentage of the present value of scheme liabilities (%)	(14 3%)	16 0%	(13 4%)	(27 6%)	5 4%

Notes to the financial statements
Year ended 31 March 2012

20. Pension scheme (continued)

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

	2012 £'000	2011 £'000	2010 £'000
Balance sheet			
Pension deficit	(31,198)	(6,706)	(27,873)
Intangible assets	-	(1,435)	(2,868)
Deferred taxation	7,488	2,117	8,607
Impact on net assets	(23,710)	(6,024)	(22,134)
Income statement			
Unwinding of discount on franchise adjustment	(362)	(756)	(801)
Intangible asset amortisation	1,435	1,433	1,433
Deferred taxation	(420)	(790)	(177)
Impact on profit for the period from continuing operations	653	(113)	455
Statement of recognised income and expense			
Actuarial (gains)/losses on franchise adjustment	(24,130)	21,923	(15,212)
Deferred tax on actuarial (gains)/losses	5,791	(5,700)	4,259
	(18,339)	16,223	(10,953)

21. Related party transactions

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

22. 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