

FIRST SCOTRAIL LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2011



**Company Registered
Number: SC185018**

Registered Office:

**395 King Street
Aberdeen
AB24 5RP**

FIRST SCOTRAIL LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

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DIRECTORS' REPORT

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

Principal activities

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

Business review

The franchise to operate these passenger railway services commenced on 17 October 2004, and following a 3-year extension will continue until November 2014. The original commitment to invest £40m in station enhancements, increased CCTV and passenger information coverage and additional ticket issuing facilities, is almost complete with £38m of investment since the start of the franchise. The remaining investment will be made in 2011. The further investment commitment of £70m, agreed as part of the 3-year extension agreement, is also being incurred.

During the year, Network Rail completed the build of a new line of route between Airdrie and Bathgate, allowing an hourly service from Helensburgh to Edinburgh to be introduced in December 2010. The frequency of this service was increased to 4 trains per hour in May 2011. New stations at Armadale, Blackridge and Caldercruix were opened as part of this £300m investment, with enhanced facilities at Bathgate, Drumgelloch, Livingston North and Uphall stations. The service is being operated by Class 334 electric trains which previously operated in the Strathclyde area.

A fleet of new Class 380 electric trains, manufactured by Siemens, was introduced throughout the year and these trains are now operating on the Ayrshire and Inverclyde services. They have also recently been introduced on the North Berwick services. These new trains are being maintained at the enhanced maintenance facility at Shields Depot which was opened in February 2011. These initiatives were funded by the Scottish Government.

Operating profit in the year to 31 March 2011 was £15.6m (2010 - £20.3m).

Turnover was £563.3m (2010 - £524.6m), including £270.0m (2010 - £249.2m) of Revenue Grant from Transport Scotland. Passenger Income for this period was £259.1m (2010 - £243.3m), an increase of 6.5%. There has been a continued focus on service delivery, customer service and revenue protection throughout the year.

Although the profit after tax for the year was £14.4m (2010 - £15.6m) the net assets on the balance sheet have decreased to £0.6m, after payment of interim dividends in the year of £14m (2010 - £18m); capital contributions in respect of share based payments £0.3m (2010 - £0.3m) and as a result of the actuarial loss relating to the pension scheme of £3.9m (2010 - £3.6m), offset by a related deferred tax credit of £1.0m (2010 - £1.0m).

Despite a record Public Performance Measure (PPM) of 95.0% in August and a strong operational performance over the summer months, First ScotRail's PPM moving annual average (MAA) at 31 March 2011 had reduced to 89.9% (2010 - 90.5%). The prolonged impact of severe weather, affecting all transport networks in Scotland during November and December, had a significant impact on performance. During this time, First ScotRail developed innovative solutions to minimise the impact on services including fitting special 'skirts' to its trains in a bid to remove snow and compacted ice from undercarriages more quickly. Powerful pumps were used to blow hot air under the 'skirts' to warm up the underside of trains.

During the year, Smartcard Technology was successfully introduced on the Edinburgh to Glasgow line, allowing customers to travel using a smartcard instead of a paper ticket. There are over 500 Smartcards in circulation, with utilisation continually increasing.

DIRECTORS' REPORT

Outlook

The investment fund created as part of the franchise extension will continue to be utilised to enhance the rail services and customer environment throughout the coming year. Additional services to and from Inverness from the Central belt will be introduced from December 2011 as part of this fund.

Network Rail are funding Automatic Ticket Gates at Charing Cross, Argyle Street, Anderston and Glasgow Central High and Low Level stations in 2011. The first 3 stations became operational in June 2011, with Glasgow Central High Level completing the scheme by the end of the year. This initiative will reduce ticketless travel on the services serving these stations.

Risks and Opportunities**Fuel costs**

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

Terrorism

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

Economy

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

Financial matters

The results for the year are set out in the profit and loss account on page 7.

The directors have not recommended payment of a final dividend but interim dividends of £14m (2010 - £18m) were paid.

Supplier payment policy

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. A number of significant purchases, such as fuel, commitments under finance leases, hire purchase contracts and operating leases are paid by direct debit. At 31 March 2011 the company had 25.2 days (2010 - 23.3 days) purchases outstanding.

Financial instruments

The company's principal financial assets are bank balances and trade and group debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant credit risk, with exposure mainly on rail industry partners. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

DIRECTORS' REPORT

Although certain risks, for example fuel price, are hedged on a group basis, the company does not directly enter into any derivative financial instruments. The company's principal financial liabilities are trade and group creditors and maintenance bond liabilities (see note 1(j)).

Directors

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

	Appointed	Resigned
Clive Burrows		
Hugh Patrick Clancy		
Jacqueline Dey		
David Clement Gausby		
Mary Alexander Grant		31 st March 2011
Alasdair McNicoll		31 st March 2011
Kenneth Allan McPhail		
Stephen Montgomery		
David Murdoch	21 st June 2010	
Kenneth William Scott		

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.

Charitable and political donations

The company made charitable donations of £133,780 during the year (2010 - £65,040).

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 reasonable risks and sensitivity scenarios in forming this judgement.

Included in creditors due within one year are Deferred Capital Grants of £7.8m and Maintenance Bonds of £23.1m. These liabilities are being amortised over the franchise period and are only payable on demand on cessation of the Franchise in 2014. Therefore, excluding these items, the balance sheet would show net current assets of £13.3m.

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

DIRECTORS' REPORT

Audit information

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

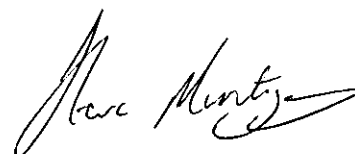
- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that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

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

Auditors

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually; Deloitte LLP have indicated their willingness to continue as auditors 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



395 King Street
Aberdeen
AB24 5RP

Stephen Montgomery
Managing Director
13 July 2011

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

We have audited the financial statements of First ScotRail Limited for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 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 other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

13 July 2011

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Turnover	2	<u>563,294</u>	<u>524,620</u>
Net operating costs			
- General		(546,347)	(503,034)
- Intangible asset amortisation	11	(1,300)	(1,299)
Total net operating costs	3	<u>(547,647)</u>	<u>(504,333)</u>
Operating profit		15,647	20,287
Net interest receivable	7	4,798	1,426
Profit on ordinary activities before taxation	8	<u>20,445</u>	<u>21,713</u>
Tax charge on profit on ordinary activities	9	<u>(6,044)</u>	<u>(6,072)</u>
Profit on ordinary activities after taxation	19	<u><u>14,401</u></u>	<u><u>15,641</u></u>

All activities relate to continuing operations.

BALANCE SHEET
At 31 March 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Intangible assets	11	4,637	5,937
Tangible assets	12	57,787	52,471
		<u>62,424</u>	<u>58,408</u>
Current assets			
Stocks	13	4,657	4,683
Debtors	14	45,772	53,538
Cash at bank and in hand		59,772	35,204
		<u>110,201</u>	<u>93,425</u>
Creditors: amounts falling due within one year	15	<u>(127,793)</u>	<u>(109,228)</u>
Net current liabilities		<u>(17,592)</u>	<u>(15,803)</u>
Total assets less current liabilities		44,832	42,605
Creditors: amounts falling due after more than one year	15	<u>(26,149)</u>	<u>(24,303)</u>
Net assets excluding pension liability		18,683	18,302
Net pension liability	22	(18,093)	(15,542)
Net assets including pension liability		<u>590</u>	<u>2,760</u>
Financed by:			
Equity and reserves			
Called up share capital	18	-	-
Profit and loss account	19	590	2,760
Shareholders' funds		<u>590</u>	<u>2,760</u>

The financial statements of First ScotRail Limited, company registered number SC185018, were approved by the Board of directors on 13 July 2011 and were signed on its behalf by:



Kenneth McPhail
Finance Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2011

	2011 £000	2010 £000
Profit for the financial year	14,401	15,641
Dividends paid in the year	(14,000)	(18,000)
Actuarial loss on pension scheme (net of deferred tax)	(2,883)	(2,609)
Capital contribution in respect of share based payments	312	338
Net reduction in shareholders' funds	<u>(2,170)</u>	<u>(4,630)</u>
Opening shareholders' funds	<u>2,760</u>	<u>7,390</u>
Closing shareholders' funds	<u><u>590</u></u>	<u><u>2,760</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2011

	2011 £000	2010 £000
Profit for the financial year	14,401	15,641
Actuarial loss relating to pension scheme (note 22)	(3,914)	(3,624)
UK deferred taxation attributable to actuarial loss	1,031	1,015
Total recognised gains and losses for the year	<u><u>11,518</u></u>	<u><u>13,032</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

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

(a) Basis of preparation

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

(b) Cash flow statement

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

(c) Tangible fixed assets and depreciation

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

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

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

Assets under construction start depreciating once a project is completed.

(d) Deferred capital grants

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

(e) Leases and hire purchase

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies (continued)**(f) Government grants and subsidies**

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

(g) Stocks

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

(h) Taxation

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

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

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

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

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

(i) Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise in relation to the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term, a liability which is assumed without additional consideration or payment receivable. The balance is being amortised on a straight line basis over the period to November 2014.

(j) Maintenance bond

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

The cash deposits received are secured as a bond in respect of future rolling stock maintenance. The receipts are recorded within Debtors under Amounts owed by group undertakings and the Maintenance Bond is recorded within Creditors. All maintenance payments made are subsequently deducted from this bond and interest receivable on these funds is calculated on a daily basis and applied against the maintenance bond.

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies (continued)**(k) Pension costs****Company specific scheme**

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

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

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

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

(l) Share based payments

The company's parent issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the company's estimate of shares that will eventually vest and is adjusted for the effects of non-market based vesting conditions.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies (continued)**(m) Turnover and revenue recognition**

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

The whole of the turnover and profit on ordinary activities before taxation derives from the company's principal activities within the United Kingdom. The company has one principal class of business, namely the provision of passenger transport services.

2 Turnover

	2011 £000	2010 £000
Passenger income	259,107	243,257
Revenue grant	270,029	249,163
Other income	34,158	32,200
	<u>563,294</u>	<u>524,620</u>

3 Total net operating costs

	2011 £000	2010 £000
Raw materials and consumables	136,687	122,933
Staff costs	164,708	147,663
Other external charges	239,402	227,723
Depreciation of tangible fixed assets	11,488	9,878
Amortisation of deferred capital grants	(5,938)	(5,163)
Intangible asset amortisation	1,300	1,299
	<u>547,647</u>	<u>504,333</u>

Included within staff costs are redundancy costs of £213,690 (2010: £nil)

NOTES TO THE FINANCIAL STATEMENTS

4 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.
Drivers	987	982
On train staff	1,152	1,166
Station staff	952	946
Fleet maintenance staff	749	724
Management and administrative	493	496
	<u>4,333</u>	<u>4,314</u>

The aggregate payroll costs of these persons were as follows:

	2011 £000	2010 £000
Wages and salaries	132,214	124,432
Social security costs	9,437	8,711
Other pension costs	17,410	12,095
Redundancy costs	214	-
Other staff costs	5,433	2,425
	<u>164,708</u>	<u>147,663</u>

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

5 Directors' remuneration

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

	2011 £000	2010 £000
Aggregate emoluments (excluding pension contributions)	936	1,101
Company pension contributions	96	96
	<u>1,032</u>	<u>1,197</u>

Retirement benefits accrue to 6 (2010 - 8) directors under a defined benefit scheme.

NOTES TO THE FINANCIAL STATEMENTS

5 Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2011 £000	2010 £000
Aggregate emoluments	279	244
Company pension contributions to defined benefit scheme	24	18
	<u>303</u>	<u>262</u>
<i>Defined benefit scheme</i>		
Accrued annual pension at end of year	74	52
Accrued lump sum at end of year	<u>43</u>	<u>41</u>

6 Share based payments

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

(a) Save as you earn (SAYE)

The Group operates an Inland Revenue 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 April 2006 Options Number	SAYE Dec 2006 Options Number	SAYE Dec 2007 Options Number	SAYE Dec 2008 Options Number	SAYE Dec 2009 Options Number	SAYE Dec 2010 Options Number
Outstanding at the beginning of the year	1,265	1,789,363	1,514,616	2,224,615	2,900,694	-
Awarded during the year	-	-	-	-	-	2,999,495
Exercised during the year	-	-	(1,595)	(2,878)	(3,093)	-
Lapsed during the year	(1,265)	(1,789,363)	(1,389,721)	(272,935)	(271,508)	(33,882)
Outstanding at the end of the year	-	-	123,300	1,948,802	2,628,093	2,965,613
Exercisable at the end of the year	-	-	123,300	-	-	-
Weighted average exercise price (pence)	325.0	444.0	583.0	371.0	310.0	319.0
Weighted average share price at date of exercise (pence)	N/A	N/A	376.8	382.1	369.3	N/A

(b) Deferred bonus shares (DBS)

	DBS 2004 Options Number	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number	DBS 2009 Options Number	DBS 2010 Options Number
Outstanding at the beginning of the year	47,509	95,193	635,317	479,930	397,026	370,667	-
Granted during the year	-	-	-	-	-	-	451,373
Forfeited during the year	-	-	(19,335)	(21,382)	(20,380)	(22,897)	-
Exercised during the year	(34,829)	(43,165)	(62,499)	(50,480)	(58,663)	(62,499)	(18,797)
Outstanding at the end of the year	12,680	52,028	553,483	408,068	317,983	285,271	432,576
Exercisable at the end of the year	12,680	52,028	-	-	-	-	-
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	371.6	374.3	378.9	379.2	384.1	382.7	386.0

NOTES TO THE FINANCIAL STATEMENTS

(c) Buy As You Earn (BAYE) scheme

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

At 31 March 2011 there were 7,985 (2010: 7,833; 2009: 7,436) participants in the BAYE scheme who have cumulatively purchased 5,651,985 (2010: 4,583,431; 2009: 3,494,553) shares with the Company contributing 1,689,837 (2010: 1,349,661; 2009: 1,011,049) matching shares on a cumulative basis.

(d) Long Term Incentive Plan (LTIP)

Awards under the LTIP scheme vest over the three year periods to 31 March from year of award with 50% of the award being dependent upon EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared to the comparator group of 100 companies.

	LTP 2008	LTP 2009	LTP 2010
	Options	Options	Options
	Number	Number	Number
Outstanding at the beginning of the year	1,532,440	3,493,717	-
Granted during the year	-	-	4,155,216
Forfeited during the year	(74,042)	(112,570)	(191,606)
Outstanding at the end of the year	1,458,398	3,381,147	3,963,610

NOTES TO THE FINANCIAL STATEMENTS

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

	2011	2010
Weighted average share price (pence)		
- DBS	384.0	365.0
- SAYE December 2009	-	395.0
- SAYE December 2010	387.0	-
- LTIP	383.3	392.3
- Tim O'Toole retention award	386.3	-
Weighted average exercise price (pence)		
- DBS	-	-
- SAYE December 2009	-	310.0
- SAYE December 2010	319.0	-
- LTIP	-	-
- Tim O'Toole retention award	-	-
Expected volatility		
- DBS	35%	35%
- SAYE December 2009	-	35%
- SAYE December 2010	35%	-
- LTIP	35%	35%
- Tim O'Toole retention award	35%	-
Expected life (years)		
- SAYE schemes	3	3
- DBS	3	3
- LTIP	3	3
- Tim O'Toole retention award	2.75	-
Rate of interest		
- DBS	1.8%	2.0%
- SAYE December 2009	-	2.0%
- SAYE December 2010	1.4%	-
- LTIP	1.6%	2.0%
- Tim O'Toole retention award	1.5%	-
Expected dividend yield		
- DBS	5.0%	3.0%
- SAYE December 2009	-	4.8%
- SAYE December 2010	4.8%	-
- LTIP	5.0%	4.8%
- Tim O'Toole retention award	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 pre-vesting forfeitures.

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

The Group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the schemes. The company has recognised a total expense of £312,000 (2010: £338,000) relating to equity-settled share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS

7 Net interest receivable

	2011	2010
	£000	£000
<i>Interest payable</i>		
Finance leases and hire purchase contracts	(72)	(86)
Amounts payable under Maintenance Bond	(1,199)	(1,360)
Interest on pension scheme liabilities	(12,199)	(10,643)
	<u>(13,470)</u>	<u>(12,089)</u>
<i>Interest receivable</i>		
Bank interest	153	201
Amounts receivable from other group undertakings	1,190	1,340
Return on pension scheme assets	16,925	11,974
	<u>18,268</u>	<u>13,515</u>
Net interest receivable	<u>4,798</u>	<u>1,426</u>

8 Profit on ordinary activities before taxation

	2011	2010
	£000	£000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration		
- Deloitte LLP audit fee	59	72
- Deloitte LLP regulatory reporting	6	4
Depreciation and other amounts written off tangible fixed assets		
- owned assets	11,277	9,668
- held under finance leases and hire purchase contracts	210	210
Gain/(loss) on sale of fixed assets	-	212
Amortisation of deferred grants	(5,938)	(5,163)
Amortisation of franchise goodwill	1,300	1,299
Government grants	(270,029)	(249,163)
Rentals receivable under operating leases		
- property	(2,077)	(2,226)
Rentals payable under operating leases		
- plant and machinery	3,040	3,286
- other operating leases	<u>197,135</u>	<u>189,196</u>

NOTES TO THE FINANCIAL STATEMENTS

9 Tax charge on profit on ordinary activities

	2011 £000	2010 £000
Current taxation		
- UK Corporation tax	6,757	-
- Group relief payable	-	6,387
- Adjustments in respect of prior years	<u>(641)</u>	<u>(703)</u>
Total current taxation	<u>6,116</u>	<u>5,684</u>
Deferred taxation		
- Origination and reversal of timing differences	137	387
- Effect of a decrease in tax rate on opening deferred balance	112	
- Adjustment in respect of prior years	<u>(358)</u>	<u>(91)</u>
	<u>(109)</u>	<u>296</u>
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	(242)	92
- Effect of a decrease in tax rate on opening deferred balance	279	-
	<u>37</u>	<u>92</u>
Total deferred taxation	<u>(72)</u>	<u>388</u>
Total tax charge on profit on ordinary activities	<u>6,044</u>	<u>6,072</u>

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	0.2	0.1
- Capital allowances less than depreciation	3.2	3.2
- Other timing differences	1.6	(1.9)
- Adjustment to prior years' tax charge	<u>(3.1)</u>	<u>(3.2)</u>
Current taxation rate for the year	<u>29.9</u>	<u>26.2</u>

The UK corporation tax rate reduced from 28% to 26% with effect from 1 April 2011. As the rate change was 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 UK Government has also announced their intention to subsequently reduce the UK corporation tax rate by 1% per annum to 23% with effect from 1 April 2014. This is likely to have the effect of reducing the effective tax rate in future years.

NOTES TO THE FINANCIAL STATEMENTS

10 Dividends

	2011 £000	2010 £000
Interim dividend for the year ended 31 March 2011	<u>14,000</u>	<u>18,000</u>

Interim dividends were paid in the year of £14m to First Rail Holdings Limited. No final dividend is proposed.

11 Intangible assets

	Franchise goodwill £000
Cost	
At 1 April 2010 and 31 March 2011	<u>16,900</u>
Amortisation	
At 1 April 2010	10,963
Charge for year	1,300
At 31 March 2011	<u>12,263</u>
Net book value	
At 31 March 2011	<u>4,637</u>
At 31 March 2010	<u>5,937</u>

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

NOTES TO THE FINANCIAL STATEMENTS

12 Tangible fixed assets

	Buildings £000	Plant & Machinery £000	Fixtures & Fittings £000	Computer Equipment £000	Leased Assets £000	Assets under Construction £000	Total £000
Cost							
At 1 April 2009	23,636	50,082	2,164	4,600	2,227	972	83,681
Additions	2,101	2,146	391	516	-	11,649	16,803
Transfers	7,597	204	3,136	65	-	(11,002)	-
At 31 March 2010	33,334	52,432	5,691	5,181	2,227	1,619	100,484
Depreciation							
At 1 April 2009	9,052	18,076	714	2,090	1,278	-	31,210
Charge for year	4,267	5,600	497	913	210	-	11,487
Transfers	1,717	(4,260)	2,543	-	-	-	-
At 31 March 2010	15,036	19,416	3,754	3,003	1,488	-	42,697
Net book value							
At 31 March 2011	18,298	33,016	1,937	2,178	739	1,619	57,787
At 31 March 2010	14,584	32,006	1,450	2,510	949	972	52,471

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

Assets held under finance lease:

	Plant & Machinery £000	Computer Equip £000	Total £000
Cost			
At 1 April 2010	2,139	88	2,227
At 31 March 2011	2,139	88	2,227
Depreciation			
At 1 April 2010	1,190	88	1,278
Charge for year	210	-	210
At 31 March 2011	1,400	88	1,488
Net book value			
At 31 March 2011	739	-	739
At 31 March 2010	949	-	949

NOTES TO THE FINANCIAL STATEMENTS

13 Stocks

	2011 £000	2010 £000
Spare parts and consumables	<u>4,657</u>	<u>4,683</u>

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

14 Debtors

	2011 £000	2010 £000
Amounts due within one year		
Trade debtors	14,575	18,264
Amounts owed by group undertakings	22,948	25,608
VAT	2,294	1,797
Other debtors	1,943	3,008
Prepayments and accrued income	2,697	3,655
Deferred tax asset (note 16)	1,315	1,206
	<u>45,772</u>	<u>53,538</u>

15 Creditors

	2011 £000	2010 £000
Amounts falling due within one year		
Obligations under finance leases and hire purchase contracts	241	225
Trade creditors	32,027	21,191
Amounts owed to group undertakings	1,039	737
Corporation tax	2,275	2,889
Other tax and social security	3,035	2,742
Other creditors	6,318	4,557
Deferred capital grants	7,799	5,373
Maintenance bond	23,073	26,234
Accruals and other deferred income	51,986	45,280
	<u>127,793</u>	<u>109,228</u>

Amounts falling due after more than one year

Obligations under finance leases and hire purchase contracts

-Due in more than one year but not more than two years	258	241
-Due in more than two years but not more than five years	420	678

Deferred capital grants

-Due in more than one year but not more than two years	8,045	5,538
-Due in more than two years but not more than five years	17,426	5,538
-Due in more than five years	-	12,308
	<u>26,149</u>	<u>24,303</u>

NOTES TO THE FINANCIAL STATEMENTS

15 Creditors (continued)

Deferred capital grants at 1 April 2010	28,757
Received during the year	10,451
Credited to profit and loss account	<u>(5,938)</u>
Deferred capital grants at 31 March 2011	<u>33,270</u>
Due within one year	7,799
Due after more than one year	<u>25,471</u>

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

16 Deferred tax asset

The deferred tax asset consists of the following amounts:

	2011	2010
	£000	£000
Deferred tax asset at 1 April	1,206	1,502
Credited/(charged) to profit and loss account (note 9)	<u>109</u>	<u>(296)</u>
Deferred tax asset at 31 March	<u>1,315</u>	<u>1,206</u>

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

17 Deferred taxation

	2011	2010
	£000	£000
Capital allowances less than depreciation	887	593
Other timing differences	428	613
Deferred tax asset	<u>1,315</u>	<u>1,206</u>

18 Called up share capital

	2011	2010
	£	£
Authorised		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS

19 Reserves

	Profit and loss account £000
At 1 April 2010	2,760
Profit for the year	14,401
Dividends paid in the year	(14,000)
Actuarial loss on pension deficit net of deferred tax	(2,883)
Capital contribution in respect of share based payment	312
At 31 March 2011	<u>590</u>

20 Commitments**Capital expenditure**

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	<u>3,119</u>	<u>1,269</u>

21 Operating leases

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

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
- within one year	-	-	-	-
- one to five years	21,264	212,180	19,497	180,046
- after more than 5 years	-	-	-	-
Total	<u>21,264</u>	<u>212,180</u>	<u>19,497</u>	<u>180,046</u>

NOTES TO THE FINANCIAL STATEMENTS

22 Pension scheme

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

Railway Pension Scheme – First ScotRail Section

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railway Pension Scheme. The last full actuarial valuation of the scheme was carried out by independent actuaries as at 31 December 2007. At the date of this actuarial valuation, the market value of the scheme's assets totalled £377.1m. The actuarial value of these assets was sufficient to cover 109.8% of the benefits which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The schemes' assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 9.84% for employees and 14.76% for employers.

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

The next full actuarial valuation, to 31 December 2010, is currently being performed.

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

The current service pension cost relating to this scheme in the year was £17.4m (2010 - £12.1m).

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 Railways 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 £0.3m lower as at 31 March 2011.

NOTES TO THE FINANCIAL STATEMENTS

22 Pension scheme (continued)

The valuation has been updated for FRS17 purposes at 31 March 2011.
The key assumptions used in the FRS 17 valuation were as follows:

	2011 %	2010 %
Discount rate	5.5	5.6
Expected return on scheme assets	7.9	7.9
Expected rate of salary increases	4.2	4.4
Inflation	3.2	3.4
Future pension increases	2.4	3.4

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

	2011 £m	2010 £m
Current service cost	17.4	12.1
Interest cost	13.4	11.5
Expected return on scheme assets	(16.9)	(12.0)
Interest on franchise adjustment	(1.2)	(0.9)
	<u>12.7</u>	<u>10.7</u>

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

The actual return on scheme assets was £25.95m (2010: £78.74m).

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

	2011 £m	2010 £m
Fair value of scheme assets	363.4	328.4
Present value of defined benefit obligations	(423.9)	(433.2)
Rail franchise adjustment (60%)	13.5	43.6
Adjustment for employee share of RPS deficits (40%)	24.2	41.9
Deficit in scheme	(22.8)	(19.3)
Related deferred tax asset	4.7	3.8
Net pension liability recognised in the balance sheet	<u>(18.1)</u>	<u>(15.5)</u>

NOTES TO THE FINANCIAL STATEMENTS

22 Pension Scheme (continued)

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

	2011 £m	2010 £m
At 1 April	433.2	288.4
Current service cost	17.4	12.1
BRASS ¹ contribution adjustment	(0.7)	(0.9)
Interest cost	13.4	11.5
Employee share of change in DBO (not attributable to franchise adjustment)	1.2	61.7
Actuarial (gain)/loss	(29.0)	68.8
Benefit payments	(11.6)	(8.4)
At 31 March	<u>423.9</u>	<u>433.2</u>

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

	2011 £m	2010 £m
At 1 April	328.4	238.2
Expected return on assets	16.9	12.0
Company contributions	13.0	12.9
BRASS ¹ contribution adjustment	(0.7)	(0.9)
Employee contributions	8.4	7.9
Employee share of return on assets	10.4	31.5
(Loss)/gain on assets	(1.4)	35.2
Benefits paid from schemes	(11.6)	(8.4)
At 31 March	<u>363.4</u>	<u>328.4</u>

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

	2011 £m	2010 £m
At 1 April	(72.6)	(21.4)
Interest on franchise adjustment	(1.2)	(0.9)
Employee share of change in DBO (attributable to franchise adjustment)	20.0	(20.4)
Actuarial loss/(gain) on franchise adjustment	31.3	(29.9)
At 31 March	<u>(22.5)</u>	<u>(72.6)</u>

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

	Expected Return 2011 %	Fair value of assets 2011 £m	Expected Return 2010 %	Fair value of assets 2010 £m
Equity instruments ²	8.9	0.0	9.1	217.9
Debt instruments	5.2	17.8	5.3	33.5
Property	6.9	0.0	7.6	27.5
Other assets	8.8	<u>345.6</u>	8.6	<u>49.5</u>
		<u>363.4</u>		<u>328.4</u>

NOTES TO THE FINANCIAL STATEMENTS

22 Pension Scheme (continued)

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

	2011	2010
	%	%
Equity instruments	8.9	9.1
Debt instruments	5.2	5.3
Property	6.9	7.6
Other - cash	4.3	4.4
- infrastructure	8.0	8.8
- cash plus ²	8.9	9.1
- Commodities	8.9	0.0
- Private Equity	9.0	0.0
- other	1.0	1.0

The history of experience adjustments is as follows:

	2011	2010	2009	2008	2007
	£m	£m	£m	£m	£m
Fair value of scheme assets	363.4	328.4	238.2	312.8	316.6
Present value of defined benefit obligations	(423.9)	(433.2)	(288.4)	(322.8)	(329.2)
Rail franchise adjustment (60%)	13.5	43.6	12.8	1.6	6.3
Adjustment for employee share of RPS deficits (40%)	24.2	41.9	20.1	4.0	5.0
Deficit in the scheme	(22.8)	(19.3)	(17.3)	(4.4)	(1.3)
Experience gain/(loss) on scheme assets					
- Amount (£m)	(1.4)	35.3	(66.6)	(19.8)	5.4
- Percentage of scheme assets (%)	0.6	17.9	(46.6)	(10.6)	1.7
Experience gain/(loss) on scheme liabilities					
- Amount (£m)	(1.4)	6.7	28.9	(8.7)	(6.3)
- Percentage of scheme liabilities (%)	0.6	2.6	16.7	(4.5)	(1.9)

The estimated amounts of contributions expected to be paid to the scheme during the financial year to 31 March 2012 is £24.5m (year to 31 March 2011: £20.7m).

Note

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

² The Railways Pension Scheme changed the asset allocation during July 2010 with equities held as part of a growth fund called "Cash Plus", which invests in different return seeking assets.

NOTES TO THE FINANCIAL STATEMENTS

22 Pension Scheme (continued)

The pension deficit is what the company expects to fund over the term of the franchise. This is accounted for by the way of a franchise adjustment.

Had the company accounted for pensions as if the franchise had an indefinite duration, the impact on the financial statements would have been as follows:

	2011	2010
	£m	£m
Balance Sheet		
Pension deficit	(13.5)	(43.6)
Intangible assets	(4.6)	(5.9)
Deferred taxation	4.7	13.9
Impact on net assets	<u>(13.4)</u>	<u>(35.6)</u>
Profit and loss account		
Unwinding of discount of franchise adjustment	(1.2)	(0.9)
Intangible asset amortisation	1.3	1.3
Deferred taxation	(1.1)	(0.1)
Impact on profit for the year	<u>(1.0)</u>	<u>0.3</u>
Statement of recognised gains and losses		
Actuarial (gains)/losses on franchise adjustment	31.3	(29.9)
Deferred tax on actuarial gains/(losses)	(8.1)	8.4
	<u>23.2</u>	<u>(21.5)</u>

23 Related party transactions

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

24 Ultimate parent company

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

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

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