FIRST SCOTRAIL LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2012

Company Registered Number: SC185018

Registered Office:

395 King Street
Aberdeen
AB24 5RP

FIRST SCOTRAIL LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

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DIRECTORS' REPORT

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

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 now complete with £42.5m of investment since the start of the franchise. The further investment commitment of £70m, agreed as part of the 3-year extension agreement, is also being incurred.

The full service on the new line of route between Airdrie and Bathgate was introduced in May 2011, with 4 trains per hour from Helensburgh to Edinburgh travelling over this route. Additional services between the Central Belt and Inverness were introduced in December 2011, with this being funded from the £70m investment commitment.

Operating profit in the year to 31 March 2012 was £17.4m (2011 - £15.6m).

Turnover was £613.7m (2011 - £563.3m), including £297.5m (2011 - £270.0m) of Revenue Grant from Transport Scotland. This increase principally relates to the increase in Track Access charges payable to Network Rail, as determined by the ORR. Passenger Income for this period was £280.2m (2011 - £259.1m), an increase of 8.1%. There has been a continued focus on service delivery, customer service and revenue protection throughout the year.

Profit after tax for the year was £17.3m (2011 - £14.4m). Net assets on the balance sheet have increased to £8.1m (2011 - £0.6m), after payment of interim dividends in the year of £16m (2011 - £14m); capital contributions in respect of share based payments £0.3m (2011 - £0.3m) and as a result of the actuarial gain relating to the pension scheme of £8.0m (2011 – loss of £3.9m), offset by related deferred tax of £2.0m (2011 – credit of £1.0m).

First ScotRail's Public Performance Measure (PPM) moving annual average (MAA) at 31 March 2012 had increased to 90.7% (2011 – 89.9%), recovering from the prolonged impact of severe weather the previous year affecting all transport networks in Scotland. Performance was particularly strong in the last quarter of the year, at 93.3%.

Network Rail funded Automatic Ticket Gates were installed throughout the year at Charing Cross, Argyle Street, Anderston and Glasgow Central High and Low Level stations and are now fully operational, increasing revenue protection in the Glasgow area.

During the year, First ScotRail signed one of the first alliance agreements between a train operating company and Network Rail to better align overall objectives and provide more cost effective ways of delivering rail services. The agreement allows more efficient and effective management through a closer working relationship to deliver improvements in quality for passengers and other stakeholders. Under the agreement a joint Board of First ScotRail and Network Rail members has been established. We are confident that long term cost savings for the industry and the Scottish Government will be achieved.

Since the end of the financial year, First ScotRail has achieved certification to ISO50001 energy efficiency standard, enhancing the environmental credentials of the company.

Outlook

The coming year will see enhancements to the train services to and from Paisley from December 2012, as well as an expansion of the use of smartcard technology to other stations throughout the country.

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 £16m (2011 - £14m) 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 2012 the company had 22.6 days (2011 – 25.2 days) purchases outstanding.

Financial instruments

The company's principal financial assets are bank balances and trade and group debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant credit risk, with exposure mainly on rail industry partners. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Although certain risks, for example fuel price, are hedged on a group basis, the company does not directly enter into any derivative financial instruments. The company's principal financial liabilities are trade and group creditors and maintenance bond liabilities (see note 1(j)).

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		
Kenneth Allan McPhail		
Stephen Montgomery		
David Murdoch		
Kenneth William Scott		
Vernon Barker	7 October 2011	
Sean Duffy	27 January 2012	

Company Secretary

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

	Appointed	Resigned
Sydney Barrie		15 July 2011
Paul Michael Lewis	15 July 2011	

Directors' Indemnities

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

Employee involvement

Communication with employees is effected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the central and depot negotiating committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests.

Disabled persons

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

Charitable and political donations

The company made charitable donations of £65,202 during the year (2011 - £133,780).

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 £8.2m and Maintenance Bonds of £21.6m. 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 £16.3m.

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

Audit information

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

- as far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

- the director has taken all the steps that he/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.

Auditors

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

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

Stephen Montgomery
Managing Director
10 July 2012

395 King Street
Aberdeen
AB24 5RP

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 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds , the Statement of Total Recognised Gains and Losses, and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Chris Powell

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

10 July 2012

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Turnover	2	613,686	563,294
Net operating costs			
- General		(594,959)	(546,347)
- Intangible asset amortisation	11	(1,300)	(1,300)
Total net operating costs	3	(596,259)	(547,647)
Operating profit		17,427	15,647
Net interest receivable	7	6,232	4,798
Profit on ordinary activities before taxation	8	23,659	20,445
Tax charge on profit on ordinary activities	9	(6,392)	(6,044)
Profit on ordinary activities after taxation	19	17,267	14,401

All activities relate to continuing operations.

BALANCE SHEET
At 31 March 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Intangible assets	11	3,337	4,637
Tangible assets	12	47,053	57,787
		50,390	62,424
Current assets			
Stocks	13	5,414	4,657
Debtors	14	47,880	45,772
Cash at bank and in hand		77,845	59,772
		131,139	110,201
Creditors: amounts falling due within one year	15	(144,649)	(127,793)
Net current liabilities		(13,510)	(17,592)
Total assets less current liabilities		36,880	44,832
Creditors: amounts falling due after more than one year	15	(18,290)	(26,149)
Net assets excluding pension liability		18,590	18,683
Net pension liability	22	(10,427)	(18,093)
Net assets including pension liability		8,163	590
Financed by:			
Equity and reserves			
Called up share capital	18	-	-
Profit and loss account	19	8,163	590
Shareholders' funds		8,163	590

The financial statements of First ScotRail Limited, company registered number SC185018, were approved by the Board of directors on 10th July 2012 and were signed on its behalf by:

Kenneth McPhail
Finance Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the year ended 31 March 2012

	2012 £000	2011 £000
Profit for the financial year	17,267	14,401
Dividends paid in the year	(16,000)	(14,000)
Actuarial gain/(loss) on pension scheme (net of deferred tax)	6,020	(2,883)
Capital contribution in respect of share based payments	286	312
Net reduction in shareholders' funds	7,573	(2,170)
Opening shareholders' funds	590	2,760
Closing shareholders' funds	8,163	590

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2012

	2012 £000	2011 £000
Profit for the financial year	17,267	14,401
Actuarial gain relating to pension scheme (note 22)	8,007	(3,914)
UK deferred taxation attributable to actuarial loss	(1,987)	1,031
Total recognised gains and losses for the year	23,287	11,518

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.

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. The maintenance bond from the Strategic Rail Authority has now expired.

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.

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

	2012 £000	2011 £000
Passenger income	280,190	259,107
Revenue grant	297,536	270,029
Other income	35,960	34,158
	613,686	563,294

3 Total net operating costs

	2012 £000	2011 £000
Raw materials and consumables	142,782	136,687
Staff costs	178,431	164,708
Other external charges	266,644	239,402
Depreciation of tangible fixed assets	15,237	11,488
Amortisation of deferred capital grants	(8,135)	(5,938)
Intangible asset amortisation	1,300	1,300
	596,259	547,647

Included within staff costs are redundancy costs of £418,596 (2011: £213,690)

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.
Drivers	1,004	987
On train staff	1,150	1,152
Station staff	994	952
Fleet maintenance staff	813	749
Management and administrative	508	493
	4,469	4,333

The aggregate payroll costs of these persons were as follows:

	2012 £000	2011 £000
Wages and salaries	144,040	132,214
Social security costs	10,726	9,437
Other pension costs	17,728	17,410
Redundancy costs	419	214
Other staff costs	5,519	5,433
	178,432	164,708

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:

	2012 £000	2011 £000
Aggregate emoluments (excluding pension contributions)	1,014	936
Company pension contributions	95	96
	1,109	1,032

Retirement benefits accrue to 6 (2011 - 6) directors under a defined benefit scheme.

5 Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2012 £000	2011 £000
Aggregate emoluments	333	279
Company pension contributions to defined benefit scheme	28	24
	361	303
Defined benefit scheme		
Accrued annual pension at end of year	85	74
Accrued lump sum at end of year	47	43

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 Dec 2007 Options Number	SAYE Dec 2008 Options Number	SAYE Dec 2009 Options Number	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number
Outstanding at the beginning of the year	123,300	1,948,802	2,626,093	2,965,613	-
Awarded during the year	-	-	-	-	2,947,057
Exercised during the year	(559)	(1,726)	(4,327)	(846)	-
Lapsed during the year	(122,741)	(141,266)	(285,598)	(295,487)	(39,293)
Outstanding at the end of the year	-	1,805,810	2,336,168	2,669,280	2,907,764
Exercisable at the end of the year	-	1,805,810	-	-	-
Weighted average exercise price (pence)	583.0	371.0	310.0	319.0	271.5
Weighted average share price at date of exercise (pence)	347.6	319.5	325.5	316.2	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	DBS 2011 Options Number
Outstanding at the beginning of the year	12,680	52,028	553,483	408,068	317,983	285,271	432,576	-
Granted during the year	-	-	-	-	-	-	-	568,846
Forfeited during the year	-	-	-	(722)	-	(2,086)	(6,879)	(17,248)
Exercised during the year	(207)	(12,114)	(439,403)	(105,278)	(215,194)	(38,918)	(3,459)	(31,123)
Outstanding at the end of the year	12,473	39,914	114,080	302,068	102,789	244,267	422,238	520,475
Exercisable at the end of the year	12,473	39,914	114,080	-	-	-	-	-
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	323.6	344.7	332.2	271.4	336.1	287.0	321.2	333.6

(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 2012 there were 8,354 (2011: 7,985; 2010: 7,833) participants in the BAYE scheme who have cumulatively purchased 6,869,043 (2011: 5,651,985; 2010: 4,583,431) shares with the Company contributing 2,128,810 (2011: 1,689,837; 2010: 1,349,661) 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.

	LTIP 2008 Options Number	LTIP 2009 Options Number	LTIP 2010 Options Number	LTIP 2011 Options Number
Outstanding at the beginning of the year	1,458,398	3,381,147	3,963,610	-
Granted during the year	-	-	-	5,224,991
Forfeited during the year	-	(144,686)	(93,529)	(254,413)
Lapsed during the year	(1,458,398)	-	-	-
Outstanding at the year end	-	3,236,461	3,870,081	4,970,578

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

	2012	2011
Weighted average share price (pence)		
- DBS	**351.8**	384.0
- SAYE December 2010	-	387.0
- SAYE December 2011	**319.2**	-
- LTIP	**337.8**	383.3
- Tim O'Toole retention award	-	386.3
Weighted average exercise price (pence)		
- DBS	-	-
- SAYE December 2010	-	319.0
- SAYE December 2011	**271.5**	-
- LTIP	-	-
- Tim O'Toole retention award	-	-
Expected volatility		
- DBS	**35%**	35%
- SAYE December 2010	-	35%
- SAYE December 2011	**35%**	-
- LTIP	**42.9%**	35%
- Tim O'Toole retention award	-	35%
Expected life (years)		
- DBS	**3**	3
- SAYE schemes	**3**	3
- LTIP	**3**	3
- Tim O'Toole retention award	-	2.75
Rate of interest		
- DBS	**1.5%**	1.8%
- SAYE December 2010	-	1.4%
- SAYE December 2011	**0.6%**	-
- LTIP	**1.3%**	1.6%
- Tim O'Toole retention award	-	1.5%
Expected dividend yield		
- DBS	**6.3%**	5.0%
- SAYE December 2010	-	4.8%
- SAYE December 2011	**7.0%**	-
- LTIP	**6.6%**	5.0%
- 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 £286,000 (2011: £312,000) relating to equity-settled share-based payment transactions.

7 Net interest receivable

	2012 £000	2011 £000
Interest payable		
Finance leases and hire purchase contracts	(56)	(72)
Amounts payable under Maintenance Bond	(1,098)	(1,199)
Interest on pension scheme liabilities	(13,047)	(12,199)
	(14,201)	(13,470)
Interest receivable		
Bank interest	303	153
Amounts receivable from other group undertakings	1,047	1,190
Return on pension scheme assets	19,083	16,925
	20,433	18,268
Net interest receivable	6,232	4,798

8 Profit on ordinary activities before taxation

	2012 £000	2011 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration		
- Deloitte LLP audit fee	49	59
- Deloitte LLP regulatory reporting	4	6
Depreciation and other amounts written off tangible fixed assets		
- owned assets	15,027	11,277
- held under finance leases and hire purchase contracts	210	210
Gain/(loss) on sale of fixed assets	-	-
Amortisation of deferred grants	(8,135)	(5,938)
Amortisation of franchise goodwill	1,300	1,300
Government grants	(297,536)	(270,029)
Rentals receivable under operating leases		
- property	(2,536)	(2,077)
Rentals payable under operating leases		
- plant and machinery	3,682	3,040
- other operating leases	227,832	197,135

9 Tax charge on profit on ordinary activities

	2012 £000	2011 £000
Current taxation		
- UK Corporation tax	6,916	6,757
- Group relief payable		-
- Adjustments in respect of prior years	(149)	(641)
Total current taxation	6,767	6,116
Deferred taxation		
- Origination and reversal of timing differences	(819)	137
- Effect of a decrease in tax rate on opening deferred balance	115	112
- Adjustment in respect of prior years	(174)	(358)
	(878)	(109)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	204	(242)
- Effect of a decrease in tax rate on opening deferred balance	299	279
	503	37
Total deferred taxation	(375)	(72)
Total tax charge on profit on ordinary activities	6,392	6,044

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

	2012 %	2011 %
Standard rate of taxation	26.0	28.0
Factors affecting charge		
- Expenses not deductible for tax purposes	0.4	0.2
- Capital allowances less than depreciation	3.7	3.2
- Other timing differences	(0.9)	1.6
- Adjustment to prior years' tax charge	(0.6)	(3.1)
Current taxation rate for the year	28.6	29.9

A resolution passed by Parliament on 26 March 2012 has reduced the main rate of UK corporation tax to 24% from 1 April 2012.

Legislation to reduce the main rate of UK corporation tax from 24% to 23% from 1 April 2013 is expected to be included in Finance Bill 2012. Further reductions to the main rate of UK corporation tax are proposed to reduce the 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, are 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.

10 Dividends

	2012 £000	2011 £000
Interim dividend for the year ended 31 March 2012	16,000	14,000

Interim dividends were paid in the year of £16m to First Rail Holdings Limited. No final dividend is proposed.

11 Intangible assets

	Franchise goodwill £000
Cost	
At 1 April 2011 and 31 March 2012	16,900
Amortisation	
At 1 April 2011	12,263
Charge for year	1,300
At 31 March 2012	13,563
Net book value	
At 31 March 2012	3,337
At 31 March 2011	4,637

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

12 Tangible fixed assets

	Buildings	Plant & Machinery	Fixtures & Fittings	Computer Equipment	Leased Assets	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost							
At 1 April 2011	33,334	52,432	5,691	5,181	2,227	1,619	100,484
Additions	1,910	3,706	356	1,103	-	1,757	8,832
Disposals	-	(4,329)	-	-	-	-	(4,329)
Transfers	1,628	1,292	39	23	-	(2,982)	-
At 31 March 2012	36,872	53,101	6,086	6,307	2,227	394	104,987
Depreciation							
At 1 April 2011	15,036	19,416	3,754	3,003	1,488	-	42,697
Charge for year	5,633	7,653	607	1,134	210	-	15,237
Transfers	-	-	-	-	-	-	-
At 31 March 2012	20,669	27,069	4,361	4,137	1,698	-	57,934
Net book value							
At 31 March 2012	16,203	26,032	1,725	2,170	529	394	47,053
At 31 March 2011	18,298	33,016	1,937	2,178	739	1,619	57,787

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

Assets held under finance lease:

	Plant & Machinery	Computer Equipment	Total
	£000	£000	£000
Cost			
At 1 April 2011	2,139	88	2,227
At 31 March 2012	2,139	88	2,227
Depreciation			
At 1 April 2011	1,400	88	1,488
Charge for year	210	-	210
At 31 March 2012	1,610	88	1,698
Net book value			
At 31 March 2012	529	-	529
At 31 March 2011	739	-	739

13 Stocks

	2012 £000	2011 £000
Spare parts and consumables	5,414	4,657

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

14 Debtors

	2012 £000	2011 £000
Amounts due within one year		
Trade debtors	15,266	14,575
Amounts owed by group undertakings	21,637	22,948
VAT	3,329	2,294
Other debtors	948	1,943
Prepayments and accrued income	4,507	2,697
Deferred tax asset (note 16)	2,193	1,315
	47,880	45,772

15 Creditors

	2012 £000	2011 £000
Amounts falling due within one year		
Obligations under finance leases and hire purchase contracts	258	241
Trade creditors	43,981	32,027
Amounts owed to group undertakings	591	1,039
Corporation tax	3,599	2,275
Other tax and social security	3,248	3,035
Other creditors	4,114	6,318
Deferred capital grants	8,208	7,799
Maintenance bond	21,638	23,073
Accruals and other deferred income	59,012	51,986
	144,649	127,793

Amounts falling due after more than one year

	2012 £000	2011 £000
Obligations under finance leases and hire purchase contracts		
-Due in more than one year but not more than two years	421	258
-Due in more than two years but not more than five years	-	420
	421	678
Deferred capital grants		
-Due in more than one year but not more than two years	8,318	8,045
-Due in more than two years but not more than five years	9,551	17,426
-Due in more than five years	-	-
	17,869	25,471
	18,290	26,149

15 Creditors (continued)

Deferred capital grants at 1 April 2011	33,270
Received during the year	941
Credited to profit and loss account	(8,135)
Deferred capital grants at 31 March 2012	26,076
Due within one year	8,208
Due after more than one year	17,869

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:

	2012	2011
	£000	£000
Deferred tax asset at 1 April	1,315	1,206
Credited/(charged) to profit and loss account (note 9)	878	109
Deferred tax asset at 31 March	2,193	1,315

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

17 Deferred taxation

	2012	2011
	£000	£000
Capital allowances less than depreciation	4,579	887
Other timing differences	(2,386)	428
Deferred tax asset	2,193	1,315

18 Called up share capital

	2012	2011
	£	£
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
2 ordinary shares of £1 each	2	2

19 Reserves

	Profit and loss account £000
At 1 April 2011	590
Profit for the year	17,267
Dividends paid in the year	(16,000)
Actuarial loss on pension deficit net of deferred tax	6,020
Capital contribution in respect of share based payment	286
At 31 March 2012	8,163

20 Commitments

Capital expenditure

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	878	3,119

21 Operating leases

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

	2012		2011	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
- within one year	-	-	-	-
- one to five years	24,187	351,731	21,264	212,180
- after more than 5 years	-	-	-	-
Total	24,187	351,731	21,264	212,180

22 Pension scheme

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

Railway Pension Scheme – First ScotRail Section

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railway Pension Scheme. The last full actuarial valuation of the scheme was carried out by independent actuaries as at 31 December 2010. At the date of this actuarial valuation, the market value of the scheme's assets totalled £395.1m. The actuarial value of these assets was sufficient to cover 101.9% of the benefits which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The schemes' assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 10.28% for employees and 15.42% for employers.

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

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

The current service pension cost relating to this scheme in the year was £17.6m (2011 - £17.4m).

22 Pension scheme (continued)

The valuation has been updated for FRS17 purposes at 31 March 2012.
The key assumptions used in the FRS 17 valuation were as follows:

	2012 %	2011 %
Discount rate	4.7	5.5
Expected return on scheme assets	8.2	7.9
Expected rate of salary increases	3.8	4.2
Inflation	2.8	3.2
Future pension increases	1.8	2.4

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

	2012 £m	2011 £m
Current service cost	17.6	17.4
Interest cost	13.8	13.4
Expected return on scheme assets	(19.1)	(16.9)
Interest on franchise adjustment	(0.7)	(1.2)
	11.6	12.7

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

The actual return on scheme assets was £10.74m (2011: £25.95m).

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

	2012 £m	2011 £m
Fair value of scheme assets	384.1	363.4
Present value of defined benefit obligations	(465.4)	(423.9)
Rail franchise adjustment (60%)	36.6	13.5
Adjustment for employee share of RPS deficits (40%)	32.1	24.2
Deficit in scheme	(12.6)	(22.8)
Related deferred tax asset	2.2	4.7
Net pension liability recognised in the balance sheet	(10.4)	(18.1)

22 Pension Scheme (continued)

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

	2012 £m	2011 £m
At 1 April	423.9	433.2
Current service cost	17.6	17.4
BRASS[1] contribution adjustment	(0.8)	(0.7)
Interest cost	13.8	13.4
Employee share of change in DBO (not attributable to franchise adjustment)	21.8	1.2
Actuarial loss/(gain)	1.2	(29.0)
Benefit payments	(12.1)	(11.6)
At 31 March	465.4	423.9

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

	2012 £m	2011 £m
At 1 April	363.4	328.4
Expected return on assets	19.1	16.9
Company contributions	13.7	13.0
BRASS[1] contribution adjustment	(0.8)	(0.7)
Employee contributions	9.1	8.4
Employee share of return on assets	4.3	10.4
Loss on assets	(12.6)	(1.4)
Benefits paid from schemes	(12.1)	(11.6)
At 31 March	384.1	363.4

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

	2012 £m	2011 £m
At 1 April	(22.5)	(72.6)
Interest on franchise adjustment	(0.7)	(1.2)
Employee share of change in DBO (attributable to franchise adjustment)	(15.4)	20.0
Actuarial (gain)/loss on franchise adjustment	(22.3)	31.3
At 31 March	(60.9)	(22.5)

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

	Expected Return 2012 %	Fair value of assets 2012 £m	Expected Return 2011 %	Fair value of assets 2011 £m
Equity instruments[2]	8.4	0.0	8.9	0.0
Debt instruments	4.3	19.6	5.2	17.8
Property	6.4	0.0	6.9	0.0
Other assets	8.4	364.5	8.8	345.6
		384.1		363.4

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.

	2012 %	2011 %
Equity instruments	8.4	8.9
Debt instruments	4.3	5.2
Property	6.4	6.9
Other - cash	3.1	4.3
- infrastructure	8.0	8.0
- cash plus[2]	8.4	8.9
- Commodities	8.4	8.9
- Private Equity	8.7	9.0
- other	1.0	1.0

The history of experience adjustments is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	384.1	363.4	328.4	238.2	312.8
Present value of defined benefit obligations	(465.4)	(423.9)	(433.2)	(288.4)	(322.8)
Rail franchise adjustment (60%)	36.6	13.5	43.6	12.8	1.6
Adjustment for employee share of RPS deficits (40%)	32.1	24.2	41.9	20.1	4.0
Deficit in the scheme	(12.6)	(22.8)	(19.3)	(17.3)	(4.4)
Experience gain/(loss) on scheme assets					
- Amount (£m)	(12.6)	(1.4)	35.3	(66.6)	(19.8)
- Percentage of scheme assets (%)	5.5	0.6	17.9	(46.6)	(10.6)
Experience gain/(loss) on scheme liabilities					
- Amount (£m)	2.1	(1.4)	6.7	28.9	(8.7)
- Percentage of scheme liabilities (%)	(0.8)	0.6	2.6	16.7	(4.5)

The estimated amounts of contributions expected to be paid to the scheme during the financial year to 31 March 2013 is £23.5m (year to 31 March 2012: £24.5m).

<u>Note</u>

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

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

22 Pension Scheme (continued)

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

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

	2012	2011
Balance Sheet	£m	£m
Pension deficit	(36.6)	(13.5)
Intangible assets	(3.3)	(4.6)
Deferred taxation	9.6	4.7
Impact on net assets	(30.3)	(13.4)
Profit and loss account		
Unwinding of discount of franchise adjustment	(0.8)	(1.2)
Intangible asset amortisation	1.3	1.3
Deferred taxation	(0.5)	(1.1)
Impact on profit for the year	0.0	(1.0)
Statement of recognised gains and losses		
Actuarial (gains)/losses on franchise adjustment	(22.3)	31.3
Deferred tax on actuarial gains/(losses)	5.4	(8.1)
	(16.9)	23.2

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.