Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

31 March 2008

First Capital Connect Limited

Report and financial statements 2008

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First Capital Connect Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2008

Principal activity

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

Business review

FCC runs approximately 95m passenger journeys a year and carries around 165,000 people every weekday, servicing 105 stations of which 78 are operated by FCC Our network covers 583km of track The company's priority is to provide a straightforward, clean and welcoming environment for passengers and staff, whilst striving to improve the quality, punctuality and reliability of the service and maintain the current high safety standards

In April 2008 FCC celebrated its second anniversary and the franchise goes from strength to strength The directors are satisfied with the overall performance of the company, with investment delivering improvements at stations, in rolling stock capacity and services for passengers The company made an operating profit of £17 6m (2007 £8 1m) on a turnover of £405 9m (2007 £361 2m) Turnover was strong with an increase in passenger volumes of 7 6%, coupled with increased revenues due to the added revenue protection measures

Our commitment to exceeding our challenging performance targets to provide customers with a punctual and reliable service is delivering results Operational train performance improved during the year with the rail industry measure of performance – Public Performance Measurement (PPM) at 90 57% for the full year to 31 March 2008, being 93 58% and 88 18% on our GN and TL routes respectively, 2 6% better than the previous year

However, we recognise the challenge in addressing overcrowding on the FCC network and we are working with our industry partners to ensure that additional capacity is provided for our customers on both routes Since the start of the franchise FCC has secured five additional Class 319 units to strengthen services and a further eight units will be transferred to the company in December 2008 This will allow us to strengthen more trains from a four car to eight car operation and to increase further capacity for Thameslink route customers

We are actively working with the Department for Transport to implement the Thameslink Programme, which will provide the longer-term solution to easing overcrowding through greatly increased capacity The first phase is due to commence in March 2009 and platform lengthening work has already begun at stations along the TL route

The railway performance has improved from just over a year ago Our aim is to consolidate performance improvements on the GN route despite the increasing issues presented by both passenger crowding and the future train congestion the ECML route will face as well as continue improvements on the TL route in advance of the first phase of the Thameslink programme

We have received approval for the Cambridge & Peterborough Capacity Study, which will enable us to run additional trains on the GN route The study recommended measures to reduce overcrowding including the introduction of a new timetable to match supply of trains to customer needs, to lengthen platforms and upgrade power supply to accommodate longer trains and more frequent services and to increase the number of carriages to strengthen trains to eight or 12-car operation The Cambridge & Peterborough Capacity study will be implemented from May 2009 and will deliver 1,779 extra seats in the morning peak and 2,490 extra seats in the evening peak – a 15% increase in seats

We have now invested more than £44m in the FCC stations and trains since the start of the franchise Customer service is at the centre of these decisions which has already provided refurbishment of toilets, waiting rooms and shelters as well as introducing additional help points, new CCTV cameras, ticketing vending machines and customer information

First Capital Connect Limited

Directors' report

FCC relocated from King's Cross Thameslink station to St Pancras International station on 9 December 2007 The new station is one of the largest transport hubs in Europe with links to Eurostar, long distance rail and six London Underground lines The new station complies with the Disability Discrimination Act with spacious platforms accessible by escalators and lifts

We continue to introduce improvements in safety and security at stations and on trains which together with our partnership with British Transport Police have delivered a 44% reduction in anti-social behaviour and a 15% reduction in crime We continue to invest in the provision of 5 British Transport Police officers and 24 Police Community Support Officers for the network

We have introduced automatic ticket gates at 13 stations across the network and since the start of the franchise achieved Secure Stations status at 47 stations and have received ParkMark, Safer Parking Award accreditation for car parks at 26 stations

During our first 2 years, we have proven our commitment to environmental improvement by introducing an environmental plan and have recently achieved ISO 14001 accreditation for the entire company Travelling by rail is much more environmentally friendly than taking the car and the passenger journeys with FCC last year reduced carbon dioxide emissions by 233,000 tons

Principal risks and uncertainties

Rail franchise agreements

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

Legislation and regulation

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

Labour costs

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

Electricity costs

Electricity prices can be influenced significantly by international, political and economic circumstances To mitigate the risks of rising electricity costs the company in conjunction with the Association of Train Operating Companies requests Network Rail Infrastructure Limited to regularly enter into forward contracts to buy electricity at fixed

First Capital Connect Limited

Directors' report

pnces In addıtıon the company seeks to lımıt the ımpact of unexpected electrıcıty prıce rıses through effıcıency and pricıng measures

Terrorısm

Terrorıst acts and the publıc's concerns about potentıal attacks could adversely affect demand for our servıces More partıcularly ıf we were to be perceıved as not takıng all reasonable precautıons to guard agaınst potentıal terrorıst acts thıs could adversely affect our reputatıon wıth the publıc The company has a Head of Securıty who ıs responsıble for ımproved securıty awareness, the applıcatıon of good practıce ın the ımplementatıon of securıty measures, and the development and traınıng of our employees so that they can respond effectıvely to any perceıved threat or ıncıdent

Economy

The level of economıc actıvıty affects the number of traın journeys taken by passengers ın the UK Any changes ın economıc actıvıty may ımpact upon the passenger numbers and hence our operatıons The potentıal ımpact of thıs ıs reduced on the company due to the exıstence of a revenue-support arrangement

Fınancıal matters

The results for the year are gıven ın the profit and loss account on page 8

The dırectors have not recommended payment of a final dıvıdend An ınterım dıvıdend of £13 0m was paıd ın the year (2007 £7 0m)

Supplıer payment polıcy

It ıs the company's polıcy to abıde by the payment terms agreed wıth supplıers whenever ıt ıs satısfied that the supplıer has provıded the goods and servıces ın accordance wıth agreed terms and condıtıons A number of sıgnıficant purchases such as commıtments under operatıng leases are paıd by dırect debıt At 31 March 2008 the company had 26 days' purchases outstandıng (2007 29 days)

Financıal ınstruments

The company's prıncıpal financıal assets are bank balances and trade debtors The company's credıt rısk ıs prımarıly attrıbutable to ıts trade debtors The amounts presented ın the balance sheet are net of provısıons for doubtful debts The company has no sıgnıficant concentratıon of credıt rısk, wıth exposure spread over a large number of customers The credıt rısk on lıquıd funds ıs lımıted because the counterpartıes are banks Although certaın rısks, for example utılıty prıce, are hedged on a group basıs, the company does not dırectly enter ınto any derıvatıve financıal ınstruments

Dırectors

The dırectors who held office throughout the year are as follows

Dean Fınch
Davıd Gausby
Andrew Haınes
Paul Furze-Waddock
Elaıne Holt (Managıng Dırector)
James Morgan
Karen Boswell
Hugh Clancy
Andrew Cope

Directors' report

Directors (continued)

Nigel Holness
Christopher Cornthwaite
Belen Martinez (Name changed from Belen McWilliam, 24 September 2007)
Robert Breakwell
Michael Barker
Michelle Smart

Employee involvement

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

Disabled persons

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

Audit information

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

- as far as the director is aware, there is no relevant audit information of which the company's 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 provision of S234ZA of the Companies Act 1985

Auditors

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually Deloitte & Touche 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

50 Eastbourne Terrace
Paddington
London
W2 6LX

C J Cornthwaite
Director
20 June 2008

First Capital Connect Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare such 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) The financial statements are required by law to give a true and fair view, of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

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

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

(c) state whether applicable accounting standards have been followed, and

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 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 auditors' report to the members of First Capital Connect Limited

We have audited the financial statements of First Capital Connect Limited for the year ended 31 March 2008 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholder's funds, the statement of total recognised gains and losses and the related notes 1 to 24 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 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 auditors' 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 auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Deloitte · Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
20 June 2008

First Capital Connect Limited

Profit and loss account
Year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Turnover	2	405,853	361,198
Operating costs			
- General		(386,845)	(340,701)
- Restructuring and other exceptional costs	4	-	(11,008)
- Intangible asset amortisation		(1,433)	(1,433)
Total operating costs	3	(388,278)	(353,142)
Profit on ordinary activities before interest		17,575	8,056
Net interest receivable	8	4,784	4,301
Profit on ordinary activities before taxation	9	22,359	12,357
Tax charge on profit on ordinary activities	10	(6,865)	(3,582)
Retained profit for the year, transferred to reserves	20	15,494	8,775

All activities relate to continuing operations

First Capital Connect Limited

Balance Sheet
At 31 March 2008

	Notes	£000	2008 £'000	£000	2007 £'000
Fixed assets					
Intangible assets	12		5,734		7,167
Tangible assets	13		18,928		14,938
			24,662		22,105
Current assets					
Stocks	14	2,946		2,384	
Debtors	15	31,668		26,669	
Cash at bank and in hand	16	74,216		48,339	
		108,830		77,392	
Creditors amounts falling due within one year	17	(122,831)		(91,163)	
Net current liabilities			(14,001)		(13,771)
Total assets less current liabilities			10,661		8,334
Provisions for liabilities	18		(319)		-
Net assets excluding pension liability			10,342		8,334
Pension liability	22		(5,494)		(5,833)
Net assets including pension liability			4,848		2,501
Financed by:					
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account	20		4,848		2,501
Shareholder's funds			4,848		2,501

These financial statements were approved by the Board of directors on 20 June 2008 and were signed on its behalf by

C J Cornthwaite
Director

First Capital Connect Limited

Reconciliation of movement in shareholder's funds
For the year ended 31 March 2008

	2008 £'000	2007 £'000
Profit for the financial year	15,494	8,775
Other recognised gains and (losses) relating to the year (net)	(297)	630
Dividends paid	(13,000)	(7,000)
Share based payment	150	96
Net addition to shareholders' funds	2,347	2,501
Opening shareholder's funds	2,501	-
Closing shareholder's funds	4,848	2,501

Statement of total recognised gains and losses

	2008 £'000	2007 £'000
Profit for the financial year	15,494	8,775
Actuarial gain/(loss) relating to the pension scheme	(437)	900
UK deferred taxation attributable to actuarial gain/(loss)	140	(270)
Total recognised gains and losses for the year	15,197	9,405

Notes to the financial statements
Year ended 31 March 2008

1 Principal accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

Cash flow statement

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

Tangible fixed assets and depreciation

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

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

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

Intangible fixed assets and depreciation

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

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

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

Intangible pension asset	-	6 years straight line

Leases and hire purchase

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

Government grants and subsidies

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

Stocks

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

1. Principal accounting policies (continued)

Taxation

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

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

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

Pension costs

Company specific schemes

The company operates a defined benefit scheme which is held in separately administered funds The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments They are included as part of staff costs Past service costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

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

Turnover

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

Share-based payment

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

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

Notes to the financial statements
Year ended 31 March 2008

2. Turnover and profit on ordinary activities before taxation

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

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

3 Operating costs

	Notes	2008 £'000	2007 £'000
Raw materials and consumables		6,755	6,878
Staff costs	5	81,690	77,492
Other external charges		295,605	254,449
Restructuring and other exceptional costs	4	-	11,008
Depreciation and other amounts written off tangible and intangible fixed assets		4,280	3,315
Profit on disposal of tangible fixed assets		(52)	-
		388,278	353,142

4 Restructuring and other exceptional costs

No further transition costs were charged in the current year on the mobilisation of the First Capital Connect franchise and subsequent train refurbishment obligations (2007 £11 0m) The tax effect of these exceptional items was £nil (2007 credit of £3 3m)

5. Employee numbers and costs

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

	2008 No.	2007 No.
Commercial	346	300
Operations	664	673
Engineering	464	427
Customer services	489	538
Administration	96	80
	2,059	2,018

The aggregate payroll costs of these persons were as follows

	2008 £'000	2007 £'000
Wages and salaries	69,023	65,046
Social security costs	5,306	5,046
Other pension costs	7,361	7,400
	81,690	77,492

Notes to the financial statements
Year ended 31 March 2008

6 Directors' remuneration

Certain directors received remuneration from FirstGroup plc, the ultimate parent company, and First Rail Holdings Ltd, the immediate parent company, in the current and prior years, details of which are disclosed in their report and accounts It is not considered practicable to allocate this between services provided to those companies and services provided in their capacity as directors to First Capital Connect Limited Details of retirement benefits accruing to the directors under the group defined benefit schemes are detailed in the financial statements of FirstGroup plc

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

	2008 £'000	2007 £'000
Aggregate emoluments (excluding pension contributions)	1,467	1,182

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

The emoluments of the highest paid director amounted to

	2008 £'000	2007 £'000
Aggregate emoluments	297	240
Defined benefit scheme		
Accrued pension at end of year	19	16
Accrued lump sum at end of year	88	69

The highest paid director exercised share options during the year and became entitled to receive shares under the FirstGroup long term incentive plan

7. Share based payments

Save as you earn (SAYE)

The company's ultimate parent operates an Inland Revenue approved savings related share option scheme Grants were made in December 2003, December 2004, December 2005, April 2007 and December 2007 The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period Share save accounts are held with Equiniti and Yorkshire Building Society The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months

Notes to the financial statements
Year ended 31 March 2008

7. Share-based payments (continued)

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

	SAYE Dec 2007 Options No.	SAYE Dec 2006 Options No.	SAYE April 2006 Options No.	SAYE 2004 Options No.
Outstanding at beginning of the year	-	2,455,488	1,881,793	2,295,787
Granted during the year	2,391,606	-	-	-
Exercised during the year	-	(4,842)	(9,424)	(2,037,986)
Lapsed during the year	(28,489)	(164,906)	(122,796)	(52,830)
Outstanding at the end of the year	**2,363,117**	**2,285,740**	**1,749,573**	**204,971**
Exercisable at the end of the year	-	-	-	**204,971**
Weighted average exercise price (pence)	583 0	444 0	325 0	267 0
Weighted average share price at date of exercise (pence)	N/A	625 0	641 2	623 7

The inputs into the Black-Scholes model are as follows

	SAYE 2008 Dec 2007	SAYE 2008 Apr 2007
Weighted average share price (pence)	714 0	555 0
Weighted average exercise price (pence)	583 0	444 0
Expected volatility	35%	35%
Expected life	3 Years	3 Years
Risk-free rate	4 5%	5 0%
Expected dividend yield	2 5%	3 5%

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 and deferred share plans exclude any allowance for the pre-vesting forfeitures

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

The Group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme The company has recognised a total expense of £150,000 (2007 £96,000) relating to equity-settled share-based payment transactions

Notes to the financial statements
Year ended 31 March 2008

8. Net interest receivable and similar charges

	2008 £'000	2007 £'000
Interest payable		
Amounts payable to other group undertakings	(25)	(95)
Interest on pension scheme liabilities	(6,247)	(5,200)
	(6,272)	(5,295)
Interest receivable		
Bank interest	2,752	2,196
Return on pension scheme assets	8,304	7,400
	11,056	9,596
Net interest receivable	4,784	4,301

9 Profit on ordinary activities before taxation

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration		
- Deloitte & Touche LLP audit fee for the audit of company's annual accounts	100	100
- Deloitte & Touche LLP non-audit fee for other services	20	1
Depreciation and other amounts written off tangible fixed assets		
- owned assets	2,847	1,882
Amortisation of intangible asset	1,433	1,433
Rentals payable under operating leases		
- plant and machinery	30,754	30,109
- other operating leases	106,534	104,316
Net rents receivable from property	(1,456)	(1,116)

Notes to the financial statements
Year ended 31 March 2008

10. Tax charge on profit on ordinary activities

	2008 £'000	**2007 £'000**
Current taxation		
- UK corporation tax charge for the year	-	-
- Group relief payable	6,886	4,199
- Adjustment in respect of prior year	(921)	-
Total current taxation	5,965	4,199
Deferred taxation		
- Origination and reversal of timing differences	(13)	(918)
- Adjustment in respect of prior year	1,274	-
- Effect of decrease in tax rate on opening liability	(24)	-
	1,237	(918)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	(317)	301
- Effect of decrease in tax rate on opening pension liability	(20)	-
	(337)	301
Total deferred taxation	900	(617)
Total tax charge on profit on ordinary activities	6,865	3,582

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 30% (2007 30%) 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

	2008 %	**2007 %**
Standard rate of taxation	30 0	30 0
Factors affecting charge		
- Expenses not deductible for tax purposes	(0 8)	(1 0)
- Capital allowances in excess of depreciation	(0 6)	1 9
- Other timing differences	2 2	3 1
- Adjustment in respect of prior year	(4 1)	-
Current taxation rate for the year	26 7	34 0

The UK corporation tax rate was reduced from 30% to 28% with effect from 1 April 2008 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 liability on UK timing differences

Notes to the financial statements
Year ended 31 March 2008

11. Dividends

	2008 £'000	2007 £'000
Amounts recognised as distributions to equity holders in the period		
Interim dividend for year ended 31 March 2008 of £13 0 m per share (2007 £7 0m per share)	13,000	7,000

12. Intangible fixed assets

	Pension asset £000
Cost	
At 1 April 2007	8,600
Additions	-
At 31 March 2008	8,600
Amortisation	
At 1 April 2007	1,433
Charge for year	1,433
At 31 March 2008	2,866
Net book value	
At 31 March 2008	5,734
At 31 March 2007	7,167

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

Notes to the financial statements
Year ended 31 March 2008

13. Tangible fixed assets

	Heavy maintenance examinations £000	Other plant and equipment £000	Total £000
Cost			
At 1 April 2007	3,202	13,618	16,820
Additions	1,543	16,145	17,688
Disposals	-	(10,903)	(10,903)
At 31 March 2008	4,745	18,860	23,605
Depreciation			
At 1 April 2007	448	1,434	1,882
Charge for the year	1,495	1,352	2,847
Disposals	-	(52)	(52)
At 31 March 2008	1,943	2,734	4,677
Net book value			
At 31 March 2008	2,802	16,126	18,928
At 31 March 2007	2,754	12,184	14,938

14. Stocks

	2008 £'000	2007 £'000
Spare parts and consumables	2,946	2,384

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

15. Debtors

Amounts falling due within one year.	2008 £'000	2007 £'000
Trade debtors	26,326	18,185
VAT	3,135	3,280
Other debtors	5	1,864
Other prepayments and accrued income	2,202	2,422
Deferred tax asset (note 18)	-	918
	31,668	26,669

Notes to the financial statements
Year ended 31 March 2008

16 Cash at bank and in hand

	2008 £'000	2007 £'000
Bank deposits	74,216	48,339

17. Creditors

Amounts falling due within one year:	2008 £'000	2007 £'000
Trade creditors	36,621	38,339
Amounts owed to group undertakings	21,911	734
Group tax relief	2,497	1,902
Other tax and social security	2,027	1,921
Other creditors	37,419	33,878
Accruals and deferred income	22,356	14,389
	122,831	91,163

Amounts owed to group undertakings include a loan of £21 0m (2007 £Nil) from FirstGroup plc The loan is repayable on demand to the extent that the company is not in breach of its financial ratios defined in its franchise agreement The interest rate on the loan is LIBOR plus 2 5%

18. Provision for liabilities

Deferred tax (liability)/asset

	£000
As at 1 April 2007	918
Charged to profit and loss account	(1,237)
At 31 March 2008	(319)

The deferred tax (liability)/asset consists of the following amounts

	2008 £'000	2007 £'000
Capital allowances in excess of depreciation	(877)	(200)
Other timing differences	558	1,118
Deferred tax (liability)/asset	(319)	918

Notes to the financial statements
Year ended 31 March 2008

19. Called up share capital

	2008 £'000	2007 £'000
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

20. Profit and loss account

	Profit and loss account £000
At 1 April 2007	2,501
Share based payment	150
Dividends paid	(13,000)
Retained profit for the year	15,494
Profit and loss reserve excluding pension asset for the year	5,145
Actuarial loss relating to the pension scheme	(437)
UK deferred taxation attributable to actuarial loss	140
At 31 March 2008	4,848

21 Commitments

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

	2008 £'000	2007 £'000
Contracted for but not provided	2,239	3,151

Operating leases

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

	2008		2007	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire				
Between two and five years	586	148,196	758	138,875

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2008

22. Pension scheme

Railways Pension Scheme – First Capital Connect Section

The company is a member of a defined benefit pension scheme, which is funded All eligible employees are offered membership of the Railway Pension Scheme The valuation of the scheme was carried out by independent actuaries at 31 December 2004 in respect of the costs used in these financial statements The actuarial valuation was updated for 31 March 2008, at this date the market value of the scheme's assets totalled £183 4m The actuarial value of these assets was sufficient to cover 102 4% 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 5% for employees and 15 75% for employers

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of return on investments will be 7 5% per annum, the rate of earnings increase will be 4 1% per annum and the rate of inflation will be 2 6% per annum The valuation was made using the projected unit method

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

The main financial assumptions used in this update were as follows

	2008	2007	2006
Rate of increase in salaries	4 80%	4 30%	-
Rate of increase of pensions in payment	3 30%	2 80%	-
Rate of increase of pensions in deferment	3 30%	2 80%	-
Discount rate	6 85%	5 45%	-
Inflation assumption	3 30%	2 80%	-

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

	2008 Expected rate of return	2007 Expected rate of return	2006 Expected rate of return	2008 Value £000	2007 Value £000	2006 Value £000
Equities	8 95%	8 45%	-	116,882	126,200	-
Bonds	5 50%	4 80%	-	17,010	18,600	-
Property	6 80%	6 30%	-	17,782	24,400	-
Other	8 51%	4 00%	-	31,734	15,738	-
				183,408	184,938	-

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2008

22. Pension scheme (continued)

The balance sheet position for the company

	2008 £000	2007 £000	2006 £000
Total fair value of assets	183,408	184,938	-
Present value of scheme liabilities	(179,192)	(185,700)	-
Surplus /(deficit) in the scheme	4,216	(762)	-
Rail franchise adjustment	(7,938)	(4,900)	-
Adjustment for employee share of deficit	(1,678)	400	-
Liability recognised in balance sheet	(5,400)	(5,262)	-
Related deferred tax liability	(94)	(571)	-
Net pension liability	(5,494)	(5,833)	-

Analysis of amount charged to operating profit

	2008 £'000	2007 £'000
Current service costs	7,361	7,400
Total operating charge	7,361	7,400

Amounts credited to net finance income

	2008 £'000	2007 £'000
Expected return on pension scheme assets	8,304	7,400
Interest on pension scheme liabilities	(6,247)	(5,200)
Net return credited as finance income	2,057	2,200

Amounts recognised in the statement of total recognised gains and losses

	2008 £'000	2007 £'000
Actual return less expected return on pension scheme assets	(11,125)	3,200
Experience gains and losses arising on scheme liabilities	13,448	5,100
Actuarial loss due to franchise adjustments after cost sharing	(2,760)	(7,400)
Total (loss)/gain recognised in STRGL	(437)	900

First Capital Connect Limited

Notes to the financial statements
Year ended 31 March 2008

22. Pension scheme (continued)

Movement in scheme surplus/ (deficit) during the year

	2008 £'000	2007 £'000
Deficit at beginning of year after franchise adjustment and cost sharing	(5,262)	-
Movement in year		
New franchise acquired	-	(8,600)
Current service costs	(7,361)	(7,400)
Contributions	5,603	7,638
Net finance income	2,057	2,200
Actuarial (loss)/gain	(437)	900
Deficit at end of year after franchise adjustments and cost sharing	(5,400)	(5,262)

History of experience gains and losses

	2008	2007
Difference between the expected and actual return on scheme assets		
Amount (£000)	11,125	(3,200)
Percentage of scheme assets (%)	6 1%	(1 7%)
Experience gains and losses on scheme liabilities		
Amount (£000)	13,448	5,100
Percentage of the present value of scheme liabilities (%)	7 5%	2 7%
Total actuarial gain in the statement of total recognised gains and losses		
Amount (£000)	(437)	900
Percentage of the present value of scheme liabilities (%)	(0 2)%	0 5%

23 Related party transactions

The company is taking advantage of the exemption under FRS8 not to disclose transactions with group companies that are related parties

24. Ultimate parent company

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

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

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

Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

31 March 2008