

Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

31 March 2010

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First Capital Connect Limited

Report and financial statements 2010

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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 2010

Principal activity

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

Business review

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

Like-for-like passenger revenue growth was 2.6% during the year. As a result of unofficial industrial action by our train drivers and damage to rolling stock and infrastructure caused by extreme winter weather, FCC's customers on the TL route experienced an unacceptable level of service from October 2009 to January 2010. During this period we operated a reduced timetable with a high level of cancellations and a significant decline in PPM. This was reflected in an overall satisfaction score of 75% in the following National Passenger Survey. Operational performance has now improved with PPM on the TL route at 92% since March 2010 and we will continue to work hard to restore customer confidence.

In March FCC announced a programme of investment and customer benefits which in total are worth over £10m. The investment will be spread between improvements to the Customer Information Systems, a modification and renewal package for class 319 trains on the TL route to resolve reliability issues and introduction of ticket barriers at stations on our network. We also enhanced the discount scheme for TL customers.

We have introduced a comprehensive driver recruitment and training programme and are working with Network Rail through our joint Performance Improvement plan to return the TL route to more stable levels of performance. The delivery of the final Class 377/5 Electrostar in January allowed FCC to fully resource the 'Key Output 0' timetable on the TL network and provide almost 5,000 additional seats at the busiest times of the day.

Operational performance on the GN route has been consistently strong, however peak time capacity remains a key issue for our customers. In May 2009 we introduced 'Seats for You', a major time table change on the route, to reduce overcrowding. The new timetable, together with additional carriages and upgraded infrastructure, allowed FCC to strengthen trains to eight or 12 car formations and introduce additional services with an overall 15% increase in peak seats.

In March we reached an agreement with the DfT to implement further capacity enhancement schemes on the GN route. The DfT has provided £27m of funding to secure 41 additional carriages which will create around 6,500 extra seats on peak time services into London Kings Cross and London Moorgate. The improvements will be implemented in stages from December 2010 to December 2013.

Operating Loss was £1.9m (2009 Profit of £5.4m) reflecting the impact of the economic downturn and in particular in London. Despite the high fixed cost nature of the rail industry FCC delivered a substantial cost reduction programme to ensure that the company remains in a position to respond to economic conditions. FCC will continue to focus on the addressable cost base in the year ahead. The revenue support from the Department for Transport will considerably mitigate the impact of the recession on passenger revenues, for which FCC became eligible on 1 April 2009.

First Capital Connect Limited

Directors' report

Principal risks and uncertainties

Rail franchise agreements

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

Legislation and regulation

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

Labour costs

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

Electricity costs

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

Terrorism

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

Economy

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

First Capital Connect Limited

Directors' report

Financial matters

The results for the year are given in the profit and loss account on page 9

The directors have not recommended payment of a final dividend (2009 £nil) No interim dividend was paid in the year (2009 £nil)

Supplier payment policy

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions A number of significant purchases such as commitments under certain operating leases are paid by direct debit At 31 March 2010 the company had 26 days' purchases outstanding (2009 27 days)

Financial instruments

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

Directors

The directors who held office throughout the year are as follows

| | |
|-------------------------|--------------------------|
| David Gausby | |
| Mary Grant | |
| Hugh Clancy | |
| Christopher Cornthwaite | |
| Michael Barker | |
| Michelle Smart | |
| Thomas Joyner | (resigned 26 April 2010) |

Directors appointed during the year as follows

| | |
|---------------|---------------------------|
| Clive Burrows | (appointed 27 April 2009) |
| Neal Lawson | (appointed 23 June 2009) |
| Laura Dunley | (appointed 29 March 2010) |

Directors resigned during the year as follows

| | |
|--------------------|-----------------------------|
| Elaine Holt | (resigned 03 April 2009) |
| Dean Finch | (resigned 01 May 2009) |
| Andrew Cope | (resigned 10 July 2009) |
| Paul Furze-Waddock | (resigned 03 November 2009) |
| Karen Boswell | (resigned 06 November 2009) |
| James Morgan | (resigned 13 November 2009) |
| Belen Martinez | (resigned 02 February 2010) |
| Robert Breakwell | (resigned 23 February 2010) |

First Capital Connect Limited

Directors' report

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.

Going concern

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

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

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

Audit information

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

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

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

First Capital Connect Limited

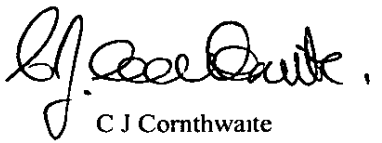
Directors' report

Auditors

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

50 Eastbourne Terrace
Paddington
London
W2 6LX

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



C J Cornthwaite
Director
24 June 2010

First Capital Connect Limited

Statement of directors' responsibilities

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

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2010 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholder's funds, the statement of total recognised gains and losses and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 more fully explained in the Directors' Responsibilities Statements, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on matters prescribed in the Companies Act 2006


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

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

Matters on which we are required to report by exception

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

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



Nigel Mercer (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
24 June 2010

First Capital Connect Limited

Profit and loss account Year ended 31 March 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-------|---------------------|---------------------|
| Turnover | 2 | <u>481,085</u> | <u>450,561</u> |
| Operating costs | | | |
| - General | | (481,111) | (442,364) |
| - Restructuring and other exceptional costs | 4 | (525) | (1,331) |
| - Intangible asset amortisation | | <u>(1,433)</u> | <u>(1,433)</u> |
| Total operating costs | 3 | <u>(483,069)</u> | <u>(445,128)</u> |
| (Loss) / profit on ordinary activities before interest | | (1,984) | 5,433 |
| Net interest receivable | 8 | <u>1,027</u> | <u>3,312</u> |
| (Loss) / profit on ordinary activities before taxation | 9 | (957) | 8,745 |
| Tax credit / (charge) on profit on ordinary activities | 10 | <u>177</u> | <u>(2,806)</u> |
| (Loss) / profit for the year | 19 | <u><u>(780)</u></u> | <u><u>5,939</u></u> |

All activities relate to continuing operations

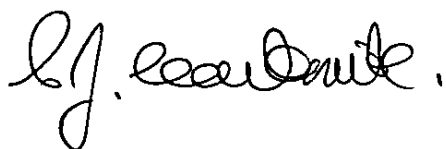
First Capital Connect Limited

Balance Sheet At 31 March 2010

| | Notes | £'000 | 2010 £'000 | £'000 | 2009 £'000 |
|---|-------|----------------|----------------|----------------|----------------|
| Fixed assets | | | | | |
| Intangible assets | 11 | | 2,868 | | 4,301 |
| Tangible assets | 12 | | 17,697 | | 20,767 |
| | | | <u>20,565</u> | | <u>25,068</u> |
| Current assets | | | | | |
| Stocks | 13 | 5,367 | | 4,881 | |
| Debtors | 14 | 44,956 | | 48,499 | |
| Cash at bank and in hand | 15 | 112,267 | | 86,814 | |
| | | <u>162,590</u> | | <u>140,194</u> | |
| Creditors: amounts falling due within one year | 16 | (169,240) | | (148,733) | |
| Net current liabilities | | | <u>(6,650)</u> | | <u>(8,539)</u> |
| Total assets less current liabilities | | | 13,915 | | 16,529 |
| Provisions for liabilities and charges | 17 | | - | | (713) |
| Net assets excluding pension liability | | | 13,915 | | 15,816 |
| Pension liability | 21 | | <u>(9,437)</u> | | <u>(8,691)</u> |
| Net assets | | | <u>4,478</u> | | <u>7,125</u> |
| Financed by: | | | | | |
| Capital and reserves | | | | | |
| Called up share capital | 18 | | - | | - |
| Profit and loss account | 19 | | 4,478 | | 7,125 |
| Shareholder's funds | | | <u>4,478</u> | | <u>7,125</u> |

The financial statements of First Capital Connect Limited registered number 05281077 were approved by the Board of Directors on 24 June 2010

Signed on behalf of the Board of Directors



C J Cornthwaite
Director

First Capital Connect Limited

Reconciliation of movements in shareholder's funds For the year ended 31 March 2010

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| (Loss) / profit for the financial year | (780) | 5,939 |
| Other recognised losses relating to the year (net) | (2,041) | (3,847) |
| | (2,821) | 2,092 |
| Share based payment | 174 | 185 |
| Net (reduction) / addition to shareholder's funds | (2,647) | 2,277 |
| Opening shareholder's funds | 7,125 | 4,848 |
| Closing shareholder's funds | 4,478 | 7,125 |

Statement of total recognised gains and losses For the year ended 31 March 2010

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| (Loss) / profit for the financial year | (780) | 5,939 |
| Actuarial loss relating to the pension scheme | (2,835) | (5,343) |
| UK deferred taxation attributable to actuarial loss | 794 | 1,496 |
| Total recognised gains and losses for the year | (2,821) | 2,092 |

First Capital Connect Limited

Notes to the financial statements **Year ended 31 March 2010**

1. Principal accounting policies

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

Basis of preparation

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

Cash flow statement

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

Tangible fixed assets and depreciation

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

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

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

Intangible fixed assets and depreciation

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

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

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

| | |
|--------------------------|-----------------------|
| Intangible pension asset | 6 years straight line |
|--------------------------|-----------------------|

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

First Capital Connect Limited

Notes to the financial statements **Year ended 31 March 2010**

1. Principal accounting policies (continued)

Taxation

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

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

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

Pension costs

Company specific schemes

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

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

Turnover

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

Share-based payment

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

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

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

2. Turnover and (loss) / 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. £39.7m (2009: £nil) of revenue support was receivable in the year.

3. Operating costs

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-------|----------------|----------------|
| Raw materials and consumables | | 12,919 | 6,814 |
| Staff costs | 5 | 89,990 | 87,437 |
| Other external charges | | 222,701 | 288,587 |
| Franchise payments | | 145,334 | 53,439 |
| Restructuring and other exceptional costs | 4 | 525 | 1,331 |
| Depreciation and other amounts written off tangible and intangible fixed assets | | 11,600 | 7,520 |
| | | <u>483,069</u> | <u>445,128</u> |

4. Restructuring and other exceptional costs

Restructuring costs of £0.5m were charged to the profit and loss account (2009: £1.3m). The restructuring costs comprised redundancy and associated costs in relation to a cost reduction action plan. The tax effect of these exceptional items was a credit of £0.1m (2009: £0.4m).

5. Employee numbers and costs

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

| | 2010 No. | 2009 No. |
|-------------------|--------------|--------------|
| Commercial | 378 | 397 |
| Operations | 704 | 701 |
| Engineering | 529 | 499 |
| Customer services | 515 | 504 |
| Administration | 98 | 103 |
| | <u>2,224</u> | <u>2,204</u> |

The aggregate payroll costs of these persons were as follows:

| | 2010 £'000 | 2009 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 78,122 | 74,167 |
| Social security costs | 5,739 | 5,708 |
| Other pension costs | 6,129 | 7,562 |
| | <u>89,990</u> | <u>87,437</u> |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

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

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| Aggregate emoluments (excluding pension contributions) | 1,066 | 1,134 |
| Compensation for loss of office | - | 279 |

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

| | 2010 £'000 | 2009 £'000 |
|---------------------------------|---------------|---------------|
| Aggregate emoluments | 149 | 189 |
| Compensation for loss of office | - | 209 |
| <i>Defined benefit scheme</i> | | |
| Accrued pension at end of year | 50 | 22 |
| Accrued lump sum at end of year | 37 | 104 |

7. Share based payments

Save as you earn (SAYE)

The company's ultimate parent company operates an Inland Revenue approved savings related share option scheme. Grants were made in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007, December 2008 and December 2009. 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 Lloyds TSB 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.

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

7. Share-based payments (continued)

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

| | SAYE December Options 2009 No | SAYE December 2008 Options No. | SAYE December 2007 Options No. | SAYE December 2006 Options No. |
|--|---|--|--|--|
| Outstanding at beginning of the year | - | 2,494,322 | 1,774,431 | 1,978,079 |
| Granted during the year | 2,938,166 | - | - | - |
| Exercised during the year | - | (584) | (315) | (334) |
| Lapsed during the year | (37,472) | (269,123) | (259,500) | (188,382) |
| Outstanding at the end of the year | 2,900,694 | 2,224,615 | 1,514,616 | 1,789,363 |
| Exercisable at the end of the year | - | - | - | 1,789,363 |
| Weighted average exercise price (pence) | 310 0 | 371 0 | 583 0 | 444 0 |
| Weighted average share price at date of exercise (pence) | N/A | 385 8 | 396 0 | 374 1 |

The inputs into the Black-Scholes model are as follows

| | SAYE 2010 Dec 2009 | SAYE 2009 Dec 2008 |
|---|-----------------------|-----------------------|
| Weighted average share price (pence) | 395 0 | 407 3 |
| Weighted average exercise price (pence) | 310 0 | 371 0 |
| Expected volatility | 35% | 30% |
| Expected life | 3 Years | 3 Years |
| Risk-free rate | 2 0% | 2 7% |
| Expected dividend yield | 4 8% | 3 0% |

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

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

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

The Group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total expense of £174,000 (2009 £185,000) relating to equity-settled share-based payment transactions.

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

8. Net interest receivable and similar charges

| | 2010 £'000 | 2009 £'000 |
|---|----------------|----------------|
| <i>Interest payable</i> | | |
| Amounts payable to other group undertakings | (69) | (155) |
| Interest on pension scheme liabilities | (6,143) | (7,693) |
| | <u>(6,212)</u> | <u>(7,848)</u> |
| <i>Interest receivable</i> | | |
| Bank interest | 338 | 1,832 |
| Return on pension scheme assets | 6,901 | 9,328 |
| | <u>7,239</u> | <u>11,160</u> |
| Net interest receivable | <u>1,027</u> | <u>3,312</u> |

9. (Loss) / profit on ordinary activities before taxation

| | 2010 £'000 | 2009 £'000 |
|---|----------------|----------------|
| (Loss) / profit on ordinary activities before taxation is stated after charging/(crediting) | | |
| Auditors' remuneration | | |
| - Deloitte LLP audit fee for the audit of company's annual accounts | 100 | 100 |
| - Deloitte LLP non-audit fee for other services | 4 | 4 |
| Depreciation and other amounts written off tangible fixed assets | | |
| - owned assets | 10,167 | 6,087 |
| Amortisation of intangible asset | 1,433 | 1,433 |
| Rentals payable under operating leases | | |
| - plant and machinery | 38,636 | 32,377 |
| - other operating leases | 62,883 | 117,458 |
| Net rents receivable from property | <u>(1,159)</u> | <u>(1,431)</u> |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

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

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| Current taxation | | |
| - Group relief payable | 1,007 | 2,928 |
| - Adjustment in respect of prior year | 131 | (211) |
| Total current taxation | 1,138 | 2,717 |
| Deferred taxation | | |
| - Origination and reversal of timing differences | (1,231) | (183) |
| - Adjustment in respect of prior year | (31) | 577 |
| | (1,262) | 394 |
| Deferred taxation on pension schemes | | |
| - Origination and reversal of timing differences | (53) | (305) |
| | (53) | (305) |
| Total deferred taxation | (1,315) | 89 |
| Total tax (credit) / charge on (loss) / profit on ordinary activities | (177) | 2,806 |

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 28% (2009 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

| | 2010 % | 2009 % |
|--|-----------|-----------|
| Standard rate of taxation | 28.0 | 28.0 |
| Factors affecting charge | | |
| - Expenses not deductible for tax purposes | 0.9 | - |
| - Capital allowances less than / (in excess of) depreciation | (124.4) | 5.7 |
| - Other timing differences | (9.7) | (0.2) |
| - Adjustment in respect of prior year | (13.7) | (2.4) |
| Current taxation rate for the year | (118.9) | 31.1 |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

11 Intangible fixed assets

| | Pension asset £'000 |
|-----------------------|------------------------------------|
| Cost | |
| At 1 April 2009 | 8,600 |
| Additions | - |
| At 31 March 2010 | 8,600 |
| Amortisation | |
| At 1 April 2009 | 4,299 |
| Charge for year | 1,433 |
| At 31 March 2010 | 5,732 |
| Net book value | |
| At 31 March 2010 | 2,868 |
| At 31 March 2009 | 4,301 |

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 is being written off on a straight line basis over six years.

12 Tangible fixed assets

| | Heavy maintenance examinations £'000 | Other plant and equipment £'000 | Total £'000 |
|-----------------------|---|--|------------------------|
| Cost | | | |
| At 1 April 2009 | 11,212 | 20,319 | 31,531 |
| Additions | 4,282 | 4,483 | 8,765 |
| Disposals | - | (1,668) | (1,668) |
| At 31 March 2010 | 15,494 | 23,134 | 38,628 |
| Depreciation | | | |
| At 1 April 2009 | 5,167 | 5,597 | 10,764 |
| Charge for the year | 4,637 | 5,530 | 10,167 |
| Disposals | - | - | - |
| At 31 March 2010 | 9,804 | 11,127 | 20,931 |
| Net book value | | | |
| At 31 March 2010 | 5,690 | 12,007 | 17,697 |
| At 31 March 2009 | 6,045 | 14,722 | 20,767 |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

13. Stocks

| | 2010 £'000 | 2009 £'000 |
|-----------------------------|---------------|---------------|
| Spare parts and consumables | 5,367 | 4,881 |

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

14. Debtors

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade debtors | 38,841 | 42,507 |
| VAT | 2,518 | 3,442 |
| Deferred Tax asset | 549 | - |
| Other debtors | 99 | 11 |
| Other prepayments and accrued income | 2,949 | 2,539 |
| | <u>44,956</u> | <u>48,499</u> |

Note 17

15. Cash at bank and in hand

| | 2010 £'000 | 2009 £'000 |
|---------------|---------------|---------------|
| Bank deposits | 112,267 | 86,814 |

Bank deposits include ring-fenced cash of £112.3m (2009 £76.2m). Under the terms of the franchise agreement, cash can only be distributed by the company either up to the amount of the retained earnings or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratio at the balance sheet date.

16. Creditors: amounts falling due within one year

| | 2010 £'000 | 2009 £'000 |
|------------------------------------|----------------|----------------|
| Trade creditors | 36,064 | 38,488 |
| Amounts owed to group undertakings | 36,780 | 26,956 |
| Group tax relief | 735 | 1,296 |
| Other tax and social security | 3,529 | 3,616 |
| Other creditors | 47,367 | 44,328 |
| Accruals and deferred income | 44,765 | 34,049 |
| | <u>169,240</u> | <u>148,733</u> |

Amounts owed to group undertakings include a loan of £35m (2009 £25m) from FirstGroup plc. The loan is repayable on demand to the extent that the company is not in breach of its financial ratios defined in its franchise agreement. The interest rate on the loan is LIBOR plus 2.5%.

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

17. Provisions for liabilities and charges

| | £'000 |
|--|------------------------------|
| Deferred tax asset/ (liability) | |
| As at 1 April 2009 | (713) |
| Credited to profit and loss account | 1,262 |
| At 31 March 2010 | Note 14 <u>549</u> |

The deferred tax liability consists of the following amounts

| | 2010 £'000 | 2009 £'000 |
|--|-----------------------|-----------------------|
| Capital allowances in excess of depreciation | (548) | (1,026) |
| Other timing differences | 1,097 | 313 |
| Deferred tax liability | <u>549</u> | <u>(713)</u> |

18. Called up share capital

| | 2010 £ | 2009 £ |
|---|-------------------|-------------------|
| Authorised | | |
| 1,000 ordinary shares of £1 each | <u>1,000</u> | <u>1,000</u> |
| Allotted, called up and fully paid | | |
| 1 ordinary share of £1 | <u>1</u> | <u>1</u> |

19. Profit and loss account

| | £'000 |
|--|--------------|
| At 1 April 2009 | 7,125 |
| Share based payment | 174 |
| Retained loss for the year | (780) |
| Profit and loss reserve excluding pension asset for the year | <u>6,519</u> |
| Actuarial loss relating to the pension scheme | (2,835) |
| UK deferred taxation attributable to actuarial loss | 794 |
| At 31 March 2010 | <u>4,478</u> |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

20. Commitments

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

| | 2010 £'000 | 2009 £'000 |
|---------------------------------|---------------|---------------|
| Contracted for but not provided | 1,658 | 1,238 |

Operating leases

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

| | 2010 | | 2009 | |
|-------------------------------|--------------------------------|----------------|--------------------------------|----------------|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| Operating leases which expire | | | | |
| Within one year | - | 1,497 | - | - |
| Between two and five years | 628 | 103,639 | 617 | 100,337 |
| | <u>628</u> | <u>105,136</u> | <u>617</u> | <u>100,337</u> |

21 Pension scheme

Railways Pension Scheme – First Capital Connect Section

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railway Pension Scheme. The valuation of the scheme was carried out by independent actuaries at 31 December 2007 in respect of the costs used in these financial statements. The actuarial valuation was updated for 31 March 2010, at this date the market value of the scheme's assets totalled £188.4m. The actuarial value of these assets was sufficient to cover 74.0% (2009 78.9%) 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 scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 10.5% for employees and 15.75% for employers.

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

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

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

21. Pension scheme (continued)

The main financial assumptions used in this update were as follows

| | 2010 £'000 | 2009 £'000 | 2008 £'000 |
|---|---------------|---------------|---------------|
| Rate of increase in salaries | 4.40% | 4.10% | 4.80% |
| Rate of increase of pensions in payment | 3.40% | 2.60% | 3.30% |
| Rate of increase of pensions in deferment | 3.40% | 2.60% | 3.30% |
| Discount rate | 5.60% | 6.75% | 6.85% |
| Inflation assumption | 3.40% | 2.60% | 3.30% |

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

| | 2010 Expected rate of return | 2009 Expected rate of return | 2008 Expected rate of return | 2010 Value £000 | 2009 Value £000 | 2008 Value £000 |
|----------|---------------------------------------|---------------------------------------|---------------------------------------|-----------------------|-----------------------|-----------------------|
| Equities | 9.05% | 8.65% | 8.95% | 125,079 | 83,498 | 116,882 |
| Bonds | 5.30% | 6.50% | 5.50% | 19,047 | 14,490 | 17,010 |
| Property | 7.60% | 6.80% | 6.80% | 16,163 | 13,702 | 17,782 |
| Other | 8.53% | 8.36% | 8.51% | 28,091 | 25,951 | 31,734 |
| | | | | <u>188,380</u> | <u>137,641</u> | <u>183,408</u> |

The balance sheet position for the company

| | 2010 £'000 | 2009 £'000 | 2008 £'000 |
|--|----------------|----------------|----------------|
| Total fair value of assets | 188,380 | 137,641 | 183,408 |
| Present value of scheme liabilities | (254,408) | (174,419) | (179,192) |
| (Deficit) / surplus in the scheme | (66,028) | (36,778) | 4,216 |
| Rail franchise adjustment | 27,873 | 11,863 | (7,938) |
| Adjustment for employee share of deficit | 26,164 | 14,517 | (1,678) |
| Liability recognised in balance sheet | (11,991) | (10,398) | (5,400) |
| Related deferred tax asset/ (liability) | 2,554 | 1,707 | (94) |
| Net pension liability | <u>(9,437)</u> | <u>(8,691)</u> | <u>(5,494)</u> |

Analysis of amount charged to operating profit

| | 2010 £'000 | 2009 £'000 |
|------------------------|---------------|---------------|
| Current service costs | 6,129 | 7,562 |
| Total operating charge | <u>6,129</u> | <u>7,562</u> |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

21. Pension scheme (continued)

Amounts credited to net finance income

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| Expected return on pension scheme assets | 6,901 | 9,328 |
| Interest on pension scheme liabilities | (6,143) | (7,693) |
| Net return credited as finance income | <u>758</u> | <u>1,635</u> |

Amounts recognised in the statement of total recognised gains and losses

| | 2010 £'000 | 2009 £'000 |
|--|----------------|----------------|
| Actual return less expected return on pension scheme assets | 20,752 | (39,936) |
| Experience (losses) / gains arising on scheme liabilities | (38,799) | 14,247 |
| Actuarial gain due to franchise adjustments after cost sharing | <u>15,212</u> | <u>20,346</u> |
| Total loss recognised in STRGL | <u>(2,835)</u> | <u>(5,343)</u> |

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

| | 2010 £'000 | 2009 £'000 |
|--|----------------|----------------|
| At 1 April | 174,419 | 179,192 |
| Current service cost | 6,129 | 7,562 |
| Brass contribution adjustment | (300) | (385) |
| Interest cost | 6,944 | 7,260 |
| Employee share of change in DBO (not attributable to franchise adjustment) | 34,480 | 280 |
| Actuarial loss / (gain) | 38,646 | (14,400) |
| Benefit payments | <u>(5,910)</u> | <u>(5,090)</u> |
| At 31 March | <u>254,408</u> | <u>174,419</u> |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

21. Pension scheme (continued)

Movements in the fair value of scheme assets were as follows

| | 2010 £'000 | 2009 £'000 |
|------------------------------------|----------------|----------------|
| At 1 April | 137,641 | 183,408 |
| Expected return on assets | 6,901 | 9,328 |
| Company contributions | 6,617 | 6,384 |
| Brass contributions | (300) | (385) |
| Employee contributions | 4,244 | 4,337 |
| Employee share of return on assets | 18,435 | (20,405) |
| Gain/(loss) on assets | 20,752 | (39,936) |
| Benefits paid from schemes | (5,910) | (5,090) |
| At 31 March | <u>188,380</u> | <u>137,641</u> |

Movements in the franchise adjustment were as follows

| | 2010 £'000 | 2009 £'000 |
|---|-----------------|-----------------|
| At 1 April | (19,770) | 13,234 |
| Interest on franchise adjustment | (801) | 544 |
| Employee share of change in DBO | (10,675) | (13,202) |
| Actuarial gain/(loss) on franchise adjustment | (15,212) | (20,346) |
| At 31 March | <u>(46,458)</u> | <u>(19,770)</u> |

History of experience gains and losses

| | 2010 | 2009 | 2008 |
|--|----------|----------|--------|
| Experience (gain) or loss on scheme assets | | | |
| Amount (£000) | (20,752) | 39,936 | 11,125 |
| Percentage of scheme assets (%) | (18.4%) | 48.4% | 10.1% |
| Experience (gain) or loss on scheme liabilities | | | |
| Amount (£000) | (5,199) | (8,556) | 3,031 |
| Percentage of the present value of scheme liabilities (%) | (3.4%) | (8.2%) | 2.8% |
| Experience (gain) or loss on scheme liabilities after franchise adjustment | | | |
| Amount (£000) | (20,411) | (28,903) | 5,792 |
| Percentage of the present value of scheme liabilities (%) | (13.4%) | (27.6%) | 5.4% |

First Capital Connect Limited

Notes to the financial statements Year ended 31 March 2010

21. Pension scheme (continued)

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

| | 2010 £'000 | 2009 £'000 | 2008 £'000 |
|---|-----------------|-----------------|---------------|
| Balance sheet | | | |
| Pension deficit | (27,873) | (11,863) | 7,938 |
| Intangible assets | (2,868) | (4,301) | (5,734) |
| Deferred taxation | 8,607 | 4,526 | (617) |
| Impact on net assets | 22,134 | (11,638) | 1,587 |
| Income statement | | | |
| Unwinding of discount on franchise adjustment | (801) | 433 | 268 |
| Intangible asset amortisation | 1,433 | 1,433 | 1,433 |
| Deferred taxation | (177) | (522) | (476) |
| Impact on profit for the period from continuing operations | 455 | 1,344 | 1,225 |
| Statement of recognised income and expense | | | |
| Actuarial (gains) / losses on franchise adjustment | (15,212) | 20,346 | 2,760 |
| Deferred tax on actuarial (gains)/losses | 4,259 | 5,697 | (773) |
| | (10,953) | (14,649) | 1,987 |

22. Related party transactions

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

23. Ultimate parent company

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

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

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