Company Registration No. 05281077

First Capital Connect Limited

Report and Financial Statements

For the year ended 31 March 2016

First Capital Connect Limited

Report and financial statements 31 March 2016

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First Capital Connect Limited
Strategic report

The directors present their report and the audited financial statements for the year ended 31 March 2016. The Company has adopted FRS 102 in the year, under which it has taken advantage of a number of reduced disclosures. Further information is available within the accounting policies section.

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

First Capital Connect Limited (FCC) provided passenger railway services from Brighton to Bedford (Thameslink services (TL)) and King's Cross to Kings Lynn (Great Northern services (GN)) and covered two of the country's largest airports, Luton and Gatwick. These activities ceased on 14 September 2014 with the loss of the franchise to a competitor, Govia Thameslink Railway Limited (GTR). FCC has not traded since that date.

Business Review and future outlook

In February 2014, the Department for Transport (DfT) agreed an interim franchise for FCC to remain as franchisee from 1 April 2014 until the start of the next franchise, Thameslink Southern Great Northern (TSGN). The FCC franchise expired at 01:59 on 14 September 2014 and the company entered into a transfer scheme with the successor operator, GTR. As a result, the company is no longer a going concern and has ceased to trade from that date. The transfer scheme resulted in all significant operating assets and liabilities of the company passing to GTR, including employees. The company continues to deal with residual issues, for example, the settlement of contractual issues with Network Rail Infrastructure Limited and settlement of employer and public liability insurance claims. Appropriate estimates of these liabilities have been included in these financial statements.

The company made a profit on ordinary activities before interest for the year of £3.9m (year ended 31 March 2015: £3.9m) on turnover of £0.0m (year ended 31 March 2015: £279.7m).

Principal risks and uncertainties

From the transfer date of 14 September 2014, the principal risks and uncertainties faced by the company were significantly reduced. The company remains liable for events up to that date.

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.

Approved by the Board of Directors
and signed on behalf of the Board on 30 December 2016

A James
Director

50 Eastbourne Terrace
Paddington
London
W2 6LG

First Capital Connect Limited
Directors' report

The directors have pleasure in submitting their report and audited financial statements for the year ended 31 March 2016. A review of the business and the future developments are set out in the Strategic report.

Financial matters

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

The directors have not recommended payment of a final dividend (31 March 2015: £nil). Interim dividends of £1.4m were paid in the year (31 March 2015: £23m).

Financial risk management

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 credit risk on liquid funds is limited because the counterparties are banks.

Directors

The directors who held office throughout the year and subsequently, except where noted, are as follows:

Vernon Barker	(resigned 17 April 2015)
Clive Burrows	(resigned 4 January 2016)
Hugh Clancy	(resigned 4 January 2016)
David Gausby	
Andrew James	(appointed 4 January 2016)

Directors' and officers' liability insurance

Directors' and officers' liability insurance is taken out by FirstGroup plc, the company's ultimate parent undertaking, for the benefit of the directors and officers of the company.

Basis other than going concern

The directors have considered the going concern assumption given the September 2014 franchise end date with the company ceasing to trade at 01:59 on 14 September 2014. Accordingly, the financial statements have been prepared on a basis other than going concern. No material adjustment has arisen as a result of ceasing to apply the going concern basis.

Audit information

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

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

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

First Capital Connect Limited
Directors' report

Auditor

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

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

AM James

A James
Director

50 Eastbourne Terrace
Paddington
London
W2 6LG

30 December 2016

First Capital Connect Limited
Directors' responsibilities statement

The directors are responsible for preparing this 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 and Financial Reporting Standard 102 (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

Independent Auditor's report to the member of First Capital Connect Limited

We have audited the financial statements of First Capital Connect Limited for the year ended 31 March 2016 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 17. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's member, 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 member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

Emphasis of matter – Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on matters prescribed in the Companies Act 2006

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

Independent Auditor's report to the member 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.

Jennifer Chase

Jennifer Chase (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountant and Statutory Auditor
London, United Kingdom

30 December 2016

First Capital Connect Limited
Profit and loss account
Year ended 31 March 2016

	Notes	2016 £'000	Restated* 2015 £'000
Turnover	2	11	279,698
Operating costs (net)	3	3,931	(275,756)
Profit on ordinary activities before interest		3,942	3,942
Net interest receivable	7	227	463
Profit on ordinary activities before taxation	8	4,169	4,405
Tax charge on profit on ordinary activities	9	(1,123)	(1,072)
Profit for the year		3,046	3,333

All amounts relate to discontinued operations.

Statement of comprehensive income
Year ended 31 March 2016

	2016 £'000	Restated* 2015 £'000
Profit for the financial year	3,046	3,333
Actuarial gain/(loss) due to scheme assets and liabilities	-	(12,641)
Actuarial (loss)/gain due to rail franchise adjustment	-	15,433
UK deferred taxation attributable to actuarial gain/(loss)	-	(565)
Total comprehensive income for the year	3,046	5,560

* Details of the restatement are disclosed in note 17.

First Capital Connect Limited
Balance sheet
At 31 March 2016

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Current assets					
Debtors	10	3,761		8,836	
Cash at bank and in hand	11	637		3,734	
		4,398		12,570	
Creditors: amounts falling due within one year	12	(1,430)		(11,248)	
Net current assets			2,968		1,322
Total assets less current liabilities			2,968		1,322
Net assets excluding pension liability			2,968		1,322
Pension liability	15		-		-
Net assets			2,968		1,322
Financed by:					
Capital and reserves					
Called up share capital	13		-		-
Profit and loss account			2,968		1,322
Shareholder's funds			2,968		1,322

The financial statements of First Capital Connect Limited, registered number 05281077, were approved by the Board of Directors on 30 December 2016 and were signed on its behalf by:

A M James

A James
Director

First Capital Connect Limited
Statement of changes in equity
For the year ended 31 March 2016

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2014	-	18,564	18,564
Total comprehensive income for the financial year	-	5,560	5,560
Dividend payments	-	(23,000)	(23,000)
Share-based payments	-	198	198
Balance at 31 March 2015	-	1,322	1,322
Total comprehensive income for the financial year	-	3,046	3,046
Dividend payments	-	(1,400)	(1,400)
Balance at 31 March 2016	-	2,968	2,968

1. *Principal accounting policies*

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

(a) General information and basis of accounting

First Capital Connect Limited is a company incorporated in the United Kingdom under the Companies Act. The registered office address is 50 Eastbourne Terrace, Paddington, London W2 6LG. The nature of the company's operations and its principal activities are set out in the Strategic report on page 1. The functional currency of First Capital Connect Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

(b) Basis of preparation

The financial statements have been prepared on the historical cost basis and on a basis other than going concern as described in the Directors' Report on page 2, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. This is the first year that the company has presented its financial statements under FRS 102, reference note 17. As a consequence of adopting FRS 102 restatements have been made to prior year numbers.

First Capital Connect Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

(c) Tangible fixed assets and depreciation

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

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

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

(d) Intangible fixed assets and amortisation

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.

Amortisation 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

(e) Capital grants

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

(f) 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.

(g) 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.

(h) Financial assets and liabilities

All financial assets and liabilities are measured at transaction price (including transaction cost).

1. Principal accounting policies (continued)

(i) 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 temporary 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.

(j) Pension costs

The company operated a defined benefit scheme until September 2014, which is held in separately administered funds. The amounts charged to 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 cost on the net pension scheme liability is shown in net interest receivable/(payable). Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

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.

(k) Turnover

Turnover 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 or railcards are issued, 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 or railcard.

(l) Share-based payments

The company's ultimate 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 shares that will eventually vest and is adjusted for the effects of non-market based vesting conditions.

Fair value is measured by use of a Black-Scholes model or other appropriate valuation models. 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.

(m) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the company's accounting policies as described above, management have made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

Contract accounting

The company had a contractual relationship with Network Rail Infrastructure Limited. Due to the regulated nature of the rail industry, disputes and claims typically arise. Judgement is required by management as to the amount receivable and also payable taking account of the information available at the time.

1. **Principal accounting policies (continued)**

(m) Critical accounting judgements and key sources of estimation uncertainty (continued)

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided is adjusted as required.

Tax provisions

Assessing the outcome of tax uncertainties requires judgement to be made regarding the result of negotiations with, and enquiries from, tax authorities. Management assessments are based on business transactions facts and circumstances and the status on ongoing discussions with the relevant tax authorities.

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 derived from the company's principal activities within the United Kingdom. The company had one principal class of business, namely, the provision of passenger railway services.

3. **Operating costs (net)**

	2016 £'000	2015 £'000
Raw materials and consumables	87	7,613
Staff costs (Note 4)	-	58,794
Other external charges	(4,236)	133,160
Franchise payments	-	69,810
Depreciation and other amounts written off tangible fixed assets	-	9,678
Loss/(profit) on sale of tangible fixed assets	218	(1,740)
Capital grants amortisation	-	(1,559)
	(3,931)	275,756

4. **Employee numbers and costs**

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

	2016 No.	2015 No.
Operations	-	384
Engineering	-	260
Customer services	-	483
Administration	3	57
	3	1,184

The aggregate payroll costs of these persons were as follows:

	2016 £'000	2015 £'000
Wages and salaries	-	49,079
Social security costs	-	4,013
Other pension costs	-	5,702
	-	58,794

5. Directors' remuneration

Five directors (31 March 2015: four) received remuneration from FirstGroup plc, the ultimate parent company, and First Rail Holdings Ltd, the immediate parent company, in the current and prior years, details of which are disclosed in their report and accounts. The directors have not performed any qualifying services on behalf of the company during the current and previous years.

The remuneration of the directors during the year paid by the company was as follows:

	2016 £'000	2015 £'000
Aggregate emoluments (excluding pension contributions)	-	1,022

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.

No (31 March 2015: nine) directors are members of a defined benefit pension scheme.

The emoluments of the highest paid director amounted to:

	2016 £'000	2015 £'000
Aggregate emoluments	-	198
Defined benefit scheme		
Accrued pension at end of year	-	12
Accrued lump sum at end of year	-	7

6. Share-based payments

Save as you earn (SAYE)

The company's ultimate parent company operates an HMRC approved savings related share option scheme. 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 Computershare. 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. Details of the share options outstanding during the year are disclosed in the published financial statements of FirstGroup plc.

Buy as you earn (BAYE)

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

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 £Nil (31 March 2015: £198,000) relating to equity-settled share based payment transactions.

7. Net interest receivable

	2016 £'000	Restated* 2015 £'000
Interest payable and similar charges		
Amounts payable to other group undertakings	-	(2)
Interest receivable and similar income		
Bank interest	3	191
Amounts receivable from other group undertakings	224	274
	227	465
Net interest receivable	227	463

* Details of the restatement are disclosed in note 17.

8. Profit on ordinary activities before taxation

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of company's annual accounts	-	130
- Deloitte LLP audit of non-statutory accounts under the terms of the interim franchise agreement	-	45
- Deloitte LLP non-audit fee for other services	-	4
Depreciation and other amounts written off tangible fixed assets		
- owned assets	-	9,678
Rentals payable under operating leases		
- plant and machinery	-	27,893
- other operating leases	-	22,778
Net rental income from property	-	(637)

Audit fees of £5,000 have been borne by the immediate parent company, First Rail Holdings Limited.

9. Tax charge on profit on ordinary activities

	2016 £'000	Restated* 2015 £'000
Current taxation		
- UK corporation tax	834	(876)
- Adjustment in respect of prior year	289	-
Total current taxation	1,123	(876)
Deferred taxation		
- Origination and reversal of timing differences	-	1,948
Total deferred taxation	-	1,948
Total tax charge on profit on ordinary activities	1,123	1,072

9. Tax charge on profit on ordinary activities (continued)

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 20% (2015: 21%).

During the period the UK Government enacted legislation to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017, plus a further reduction to 18% from 1 April 2020. Subsequent to the year end the UK Government announced a further reduction to the standard rate of corporation tax from 1 April 2020 to 17%.

The actual current tax charge on profit on ordinary activities for the current and previous year differed from the profit on ordinary activities multiplied by the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2016 £'000	2015 £'000
Profit on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 20% (2015:21%)	834	925
Factors affecting charge		
- Expenses not deductible for tax purposes	-	147
- Prior year adjustments	289	-
Total tax charge on profit on ordinary activities	1,123	1,072

* Details of the restatement are disclosed in note 17.

10. Debtors

Amounts falling due within one year:	2016 £'000	2015 £'000
Trade debtors	987	3,099
Amounts owed from group undertakings	1,843	5,009
VAT	8	-
Other debtors	890	192
Prepayments and accrued income	33	536
	3,761	8,836

11. Cash at bank and in hand

	2016 £'000	2015 £'000
Bank deposits	637	3,734

12. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	569	1,632
Amounts owed to group undertakings	49	493
Other tax and social security	-	6
Other creditors	472	4,004
Accruals and deferred income	340	5,113
	1,430	11,248

13. Called up share capital

	2016 £'000	2015 £'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

14. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	2016 £'000	2015 £'000
Interim dividends for the year ended 31 March 2016 of £1.4m (31 March 2015: £23m) per ordinary share	1,400	23,000

15. Pension scheme

Railways Pension Scheme – First Capital Connect Section

Defined contribution scheme

The company operated a defined contribution retirement benefit scheme for all qualifying employees. The total expense charged to the profit and loss account in the year ended 31 March 2016 was £Nil (2015: £0.1m).

Defined benefit scheme

As a consequence of adopting FRS 102 Section 28, restatements have been made to prior year pension numbers. These restatements are detailed in this note and in note 17.

The company was a member of a defined benefit pension scheme, which is funded. All eligible employees were offered membership of the Railways Pension Scheme. The scheme is valued triennially, when the cost of future service is calculated and the funding position established. The last valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle. The actuarial valuation was updated for 13 September 2014, the franchise expiry date; at this date the market value of the scheme's assets totalled £276.3m. The actuarial value of these assets was sufficient to cover 71% of the benefits, which had accrued to the scheme's members. As part of the franchise transfer process, FCC ceased to be the sponsoring employer and retained no interest in the pension assets or pension liabilities.

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 contribution rate at franchise expiry was 10.44% for employees and 15.66% for the employer.

15. Pension scheme (continued)

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of return on investments will be 7.59% per annum; the rate of earnings increase will be 4.23% per annum and the rate of inflation (RPI/CPI) will be 3.2%/2.4% per annum. The valuation was made using the projected unit method.

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

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

	13 September 2014
Rate of increase in salaries	3.50%
Rate of increase of pensions in payment	1.95%
Rate of increase of pensions in deferment	1.95%
Discount rate	3.90%
Inflation assumption – RPI	3.00%
Inflation assumption – CPI	1.95%

The assets in the scheme at franchise expiry were:

	13 September 2014 £'000
Bonds	13,610
Cash Plus	216,603
Private Equity	32,720
Other	13,373
	276,306

The Railways Pension Scheme changed the asset allocation during July 2010 with equities held as part of a growth fund called "Cash Plus", which invests in different return seeking assets with the aim of achieving a return of RPI+4% per annum over a rolling 5 to 10 years.

The company had no pension scheme assets or liabilities at 31 March 2016 (2015: £Nil).

Analysis of amount charged to operating profit:

	2016 £'000	**2015 £'000**
Current service cost	-	5,702

Amounts charged/(credited) to net finance income:

	2016 £'000	**Restated* 2015 £'000**
Interest cost	-	1,100
Adjustment to interest cost due to franchise adjustment	-	(1,100)
Net interest cost	-	-

15. Pension scheme (continued)

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

	2016 £'000	2015 £'000
Start of year	-	355,270
Current service cost	-	5,702
Brass contribution adjustment	-	(81)
Interest cost	-	4,359
Employee share of change in DBO (not attributable to franchise adjustment)	-	15,820
Actuarial loss	-	13,763
Benefit payments	-	(3,992)
Franchise expiry	-	(390,841)
End of year	-	-

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

	2016 £'000	Restated* 2015 £'000
Start of year	-	266,262
Interest income on assets	-	3,306
Company contributions	-	4,116
Brass contributions	-	(81)
Employee contributions	-	2,757
Employee share of return on assets	-	2,816
Gain on assets	-	1,122
Benefits paid from schemes	-	(3,992)
Franchise expiry	-	(276,306)
End of year	-	-

Movements in the franchise adjustment were as follows:

	2016 £'000	2015 £'000
Start of year	-	(87,134)
Interest on franchise adjustment	-	(1,053)
Employee share of change in DBO	-	(10,915)
Actuarial gain on franchise adjustment	-	(15,433)
Franchise expiry	-	114,535
End of year	-	-

15. 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:

	2016 £'000	2015 £'000
Income statement		
Unwinding of discount on franchise adjustment	-	(1,053)
Deferred taxation	-	221
Impact on profit for the period from continuing operations	-	(832)
Statement of recognised income and expense		
Actuarial gains on franchise adjustment	-	(15,433)
Deferred tax on actuarial gains	-	3,241
	-	(12,192)

* Details of the restatement are disclosed in note 17.

16. Ultimate parent company

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

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

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

17. Explanation of transition to FRS102

This is the first year that the company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 April 2014. As a consequence of adopting FRS 102, the accounting policy for defined benefit pension arrangements has changed. Under previous UK GAAP, the profit and loss account disclosed a separate interest cost and expected return on assets. FRS 102 Section 28 requires a net interest cost to be disclosed. This resulted in a reduction to the net interest previously disclosed of £2,129k and a deferred tax impact of £426k. Consequently, the actuarial gain due to pension scheme assets disclosed in other comprehensive income has increased by the same amount. As a result of this change to FRS 102 there is no net change to equity. Details of exemptions taken can be found in note 1.

Reconciliation of profit for year ended 31 March 2015:

	Total £'000
Profit for year ended 31 March 2015 under previous UK GAAP	5,036
Reduction to net interest on pension scheme	(2,129)
Deferred tax on reduction to net interest on pension scheme	426
Profit for year ended 31 March 2015 under FRS102	3,333