

**FIRST SCOTRAIL LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**31 MARCH 2016**



**Company Registered  
Number: SC185018**

**Registered Office:**

**395 King Street  
Aberdeen  
AB24 5RP**

# FIRST SCOTRAIL LIMITED

## REPORT AND FINANCIAL STATEMENTS 2016

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## STRATEGIC REPORT

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

### Principal activities

The principal activity of the company was the operation of passenger railway services in Scotland and sleeper services to and from London. These activities ceased by 1 April 2015.

### Business review and future outlook

On 31 March 2015 the sleeper services were transferred to Serco Caledonian Sleepers Limited and on 1 April 2015 the passenger railway services in Scotland were transferred to Abellio ScotRail Limited. As a result, the company is no longer a going concern and ceased to trade from 1 April 2015. The transfer schemes resulted in all significant operating assets and liabilities of the company passing to Serco Caledonian Sleepers Limited and Abellio ScotRail Limited, including employees. The company continues to deal with residual issues. The settlement of return condition obligations under lease arrangements with rolling stock companies have largely been completed. There remain some contractual matters to conclude with Network Rail Infrastructure Limited. Further interim settlements have been made with respect to the interim net asset statements and a final settlement is expected in the current year. Estimates of remaining liabilities have been included in these financial statements.

Operating profit in the year to 31 March 2016 was £2.1m (2015 - £18.4m).

Turnover was £1.6m (2015 - £672.0m), including £nil (2015 - £289.4m) of Revenue Grant from Transport Scotland.

### Principal Risks and Uncertainties

The company's principal risks and uncertainties were significantly reduced after the transfers to Serco Caledonian Sleepers Limited on 31 March 2015 and Abellio ScotRail Limited on 1 April 2015. The company remains liable for events up to those dates.

### Legal and regulatory issues

The business is subject to numerous laws and regulations covering a wide range of matters including health and safety, equipment, employment (including working time, wage and hour, mandatory breaks and holiday pay), competition and anti-trust, data protection and security, bribery and corruption, environment, insurance coverage, consumer protection, and other operational issues. Failure to comply could have financial or reputational implications, could result in increased litigation and claims and have a negative impact on the company. These laws and regulations are constantly subject to change, the impact of which could include increased compliance costs and/or a reduction in operational flexibility and efficiency. To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup actively engages with the relevant bodies to help ensure that the company is properly positioned to respond to any proposed changes.

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



395 King Street  
Aberdeen  
AB24 5RP

Andrew James  
Director  
30 December 2016

## **DIRECTORS' REPORT**

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The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 2016.

### **Directors**

The directors who held office throughout the year and to the date of this report (except as 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 franchise end date with the company ceasing to trade at 01:59 on 1 April 2015. 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.

### **Financial matters**

The results for the year are set out in the profit and loss account on page 5. The directors have not recommended payment of a final dividend. Interim dividends of £11.6m (2015 - £22m) were paid.

### **Financial instruments**

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

### **Auditor**

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

- as far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself 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. The company has passed an elective resolution dispensing with the requirement to appoint an auditor annually. Deloitte LLP has indicated its willingness to continue as auditor of the company and is therefore deemed to be reappointed for a further term.

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



Andrew James  
Director

30 December 2016

395 King Street  
Aberdeen  
AB24 5RP

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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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 MEMBERS OF FIRST SCOTRAIL LIMITED**

We have audited the financial statements of First ScotRail 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 21. 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 members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

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

**Scope of the audit of the financial statements**

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

**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 (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2016**

	Notes	2016 £000	Restated * 2015 £000
<b>Turnover</b>	2	<u>1,551</u>	<u>672,018</u>
Net operating costs			
- General		557	(652,547)
- Intangible asset amortisation	11	-	(1,029)
Total net operating costs	3	<u>557</u>	<u>(653,576)</u>
<b>Operating profit</b>		2,108	18,442
Net interest receivable	7	11	420
<b>Profit on ordinary activities before taxation</b>	8	<u>2,119</u>	<u>18,862</u>
Tax charge on profit on ordinary activities	9	<u>(1,283)</u>	<u>(6,002)</u>
<b>Profit on ordinary activities after taxation</b>		<u>836</u>	<u>12,860</u>

All activities relate to discontinued operations.

The notes on pages 8 to 20 form an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 March 2016**

	2016 £'000	Restated* 2015 £'000
Profit for the financial year	836	12,860
Actuarial loss due to scheme assets and liabilities	-	(27,833)
Actuarial gain due to rail franchise adjustment	-	38,000
UK deferred taxation attributable to actuarial gain/(loss)	-	(2,135)
Total comprehensive income for the year	<u>836</u>	<u>20,892</u>

\* Details of the restatement are disclosed in note 21.

**BALANCE SHEET**  
**At 31 March 2016**

	Notes	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	11	-	-
Tangible assets	12	-	5,920
		<u>-</u>	<u>5,920</u>
<b>Current assets</b>			
Stocks	13	-	7,165
Debtors	14	5,363	70,560
Cash at bank and in hand		3,207	21,756
		<u>8,570</u>	<u>99,481</u>
<b>Creditors: amounts falling due within one year</b>	15	(7,717)	(93,784)
<b>Net current assets</b>		<u>853</u>	<u>5,697</u>
<b>Total assets less current liabilities</b>		<u>853</u>	<u>11,617</u>
<b>Net pension liability</b>	19	-	-
<b>Net assets including pension liability</b>		<u><u>853</u></u>	<u><u>11,617</u></u>
<b>Financed by:</b>			
<b>Equity and reserves</b>			
Called up share capital	18	-	-
Profit and loss account		853	11,617
<b>Shareholders' funds</b>		<u><u>853</u></u>	<u><u>11,617</u></u>

The notes on pages 8 to 20 form an integral part of these financial statements.

The financial statements of First ScotRail Limited, company registered number SC185018, were approved by the Board of Directors on 30 December 2016 and were signed on its behalf by:



Andrew James  
Director



**STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 March 2016**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>Balance at 1 April 2014</b>	-	12,504	12,504
Total comprehensive income for the financial year	-	20,892	20,892
Dividend payments	-	(22,000)	(22,000)
Share-based payments	-	221	221
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2015</b>	-	11,617	11,617
Total comprehensive income for the financial year	-	836	836
Dividend payments	-	(11,600)	(11,600)
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2016</b>	-	853	853
	<hr/>	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

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**1 Principal accounting policies**

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

**(a) General information and basis of accounting**

First ScotRail Limited is a company incorporated in the United Kingdom under the Companies Act. The registered office address is 395 King Street, Aberdeen AB24 5RP. 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 ScotRail 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, 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 21. As a consequence of adopting FRS 102 restatements have been made to prior year numbers.

First ScotRail 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 as follows:

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

The majority of assets were being depreciated to the end of the franchise with some items of plant and machinery being depreciated between 2 and 10 years where management believe they have an extended useful life.

Assets under construction start depreciating once a project is completed.

**(d) Deferred capital grants**

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

**NOTES TO THE FINANCIAL STATEMENTS**

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**1 Principal accounting policies (continued)****(e) Leases and hire purchase**

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

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

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

**(f) Government grants and subsidies**

Amounts receivable for tendered services and concessionary fare schemes and financial support receivable from Transport Scotland are included in turnover (see note 1 (m) below).

**(g) Stocks**

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

**(h) Taxation**

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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**1 Principal accounting policies (continued)****(i) Intangible fixed assets**

Franchise goodwill arises on transition of a rail franchise in relation to the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term, a liability which is assumed without additional consideration or payment receivable. The balance was being amortised on a straight-line basis over the period to 31 March 2015.

**(j) Maintenance bond**

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

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

**(k) Pension costs****Company specific scheme**

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

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest 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.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A "franchise adjustment" is made to the deficit on this basis. The franchise adjustment is the projected deficit to the end of the franchise term which the company will not be required to fund, discounted back to present value. On transition of a rail franchise, an intangible asset is recognised as set out in note 1 (i) above, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund. This intangible asset was being amortised on a straight-line basis over the revised franchise term to 31 March 2015.

NOTES TO THE FINANCIAL STATEMENTS

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**1 Principal accounting policies (continued)****(l) Share-based payments**

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

Fair value is measured by use of a Black-Scholes model 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) Turnover and revenue recognition**

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

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

**(n) 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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS

**2 Turnover**

	2016 £000	2015 £000
Passenger income	(111)	341,969
Revenue grant	-	289,363
Other income	1,662	40,686
	<u>1,551</u>	<u>672,018</u>

**3 Total net operating costs**

	2016 £000	2015 £000
Raw materials and consumables	(757)	178,687
Staff costs	628	217,366
Other external charges	(428)	244,727
Depreciation of tangible fixed assets	-	28,293
Amortisation of deferred capital grants	-	(16,526)
Intangible asset amortisation	-	1,029
	<u>(557)</u>	<u>653,576</u>

Included within staff costs are redundancy costs of £nil (2015: £175,000).

**4 Employee numbers and costs**

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

	2016 No.	2015 No.
Drivers	-	1,115
On train staff	-	1,170
Station staff	-	1,178
Fleet maintenance staff	-	885
Management and administrative	3	562
	<u>3</u>	<u>4,910</u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	464	175,463
Social security costs	-	13,436
Other pension costs	-	22,344
Redundancy costs	-	175
Other staff costs	164	5,948
	<u>628</u>	<u>217,366</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

## 5 Directors' remuneration

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

	2016 £000	2015 £000
Aggregate emoluments (excluding pension contributions)	-	1,422
Company pension contributions	-	86
	<u>-</u>	<u>1,508</u>

Retirement benefits accrue to nil (2015 - 7) directors under a defined benefit scheme.

The emoluments of the highest paid director amounted to:

	2016 £000	2015 £000
Aggregate emoluments	-	481
Company pension contributions to defined benefit scheme	-	27
	<u>-</u>	<u>508</u>
<i>Defined benefit scheme</i>		
Accrued annual pension at end of year	-	99
Accrued lump sum at end of year	-	57

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) scheme**

BAYE enables eligible employees to purchase shares from their gross income. The company provides two matching shares for every three shares bought by employees, subject to a maximum company contribution of shares to 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 schemes. The company has recognised a total expense of £nil (2015: £221,000) relating to equity-settled share-based payment transactions.

## NOTES TO THE FINANCIAL STATEMENTS

**7 Net interest receivable**

	2016	Restated *
	2015	
	£000	£000
<i>Interest payable</i>		
Finance leases and hire purchase contracts	-	(3)
Amounts payable under Maintenance Bond	-	(1,231)
Net interest on defined benefit liability	-	(200)
	<u>-</u>	<u>(1,434)</u>
<i>Interest receivable</i>		
Bank interest	11	624
Amounts receivable from other group undertakings	-	1,230
	<u>11</u>	<u>1,854</u>
Net interest receivable	<u>11</u>	<u>420</u>

Details of the restatement are disclosed in note 21.

**8 Profit on ordinary activities before taxation**

Profit on ordinary activities before taxation is stated after charging / (crediting):	2016	2015
	£000	£000
Auditor's remuneration		
- Deloitte LLP audit fee	5	66
- Deloitte LLP regulatory reporting	-	-
Depreciation and other amounts written off tangible fixed assets		
- owned assets	-	28,184
- held under finance leases and hire purchase contracts	-	109
Amortisation of deferred capital grants	-	(16,526)
Amortisation of franchise goodwill	-	1,029
Rentals receivable under operating leases - property	-	(2,105)
Rentals payable under operating leases		
- land and buildings	-	3,964
- other operating leases	-	119,118

**9 Tax charge on profit on ordinary activities**

	2016	Restated *
	2015	
	£000	£000
Current taxation		
- Group relief receivable	(2,757)	7,480
- Adjustments in respect of prior years	747	565
Total current taxation	<u>(2,010)</u>	<u>8,045</u>
Deferred taxation		
- Origination and reversal of timing differences	2,993	(3,768)
- Effect of a decrease in tax rate on opening deferred balance	333	-
- Adjustment in respect of prior years	(33)	1,725
	<u>3,293</u>	<u>(2043)</u>
Total tax charge on profit on ordinary activities	<u>1,283</u>	<u>6,002</u>

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



## NOTES TO THE FINANCIAL STATEMENTS

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

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 impact of this rate reduction to 18% has reduced the deferred tax asset on UK timing differences.

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%)	424	3,961
Factors affecting charge		
- Expenses not deductible for tax purposes	145	(249)
- Prior year adjustments	714	2,290
- Effect of decrease in tax rate on origination and reversal of timing difference	(333)	-
- Effect of decrease in tax rate on opening deferred tax balance	333	-
Total tax charge on profit on ordinary activities	<u>1,283</u>	<u>6,002</u>

\* Details of the restatement are disclosed in note 21.

**10 Dividends**

	2016 £000	2015 £000
Interim dividend for the year ended 31 March 2016 of £11.6m (2015: £22.0m) per 2 ordinary shares	<u>11,600</u>	<u>22,000</u>

Interim dividends were paid in the year of £11.6m to First Rail Holdings Limited. No final dividend is proposed.

**11 Intangible assets**

	Franchise goodwill £000
<b>Cost</b>	
At 1 April 2015	16,900
Disposal	(16,900)
At 31 March 2016	-
<b>Amortisation</b>	
At 1 April 2015	16,900
Disposal	(16,900)
At 31 March 2016	-
<b>Net book value</b>	
At 31 March 2016	-
At 31 March 2015	-

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

## NOTES TO THE FINANCIAL STATEMENTS

## 12 Tangible fixed assets

	Buildings	Plant & Machinery	Fixtures & Fittings	Computer Equipment	Leased Assets	Assets under Construction	Total
<b>Cost</b>	£000	£000	£000	£000	£000	£000	£000
At 1 April 2015	42,919	62,138	7,193	11,955	2,227	739	127,171
Disposals	(42,919)	(62,138)	(7,193)	(11,955)	(2,227)	(739)	(127,171)
At 31 March 2016	-	-	-	-	-	-	-
<b>Depreciation</b>							
At 1 April 2015	42,825	59,881	7,128	9,190	2,227	-	121,251
Disposals	(42,825)	(59,881)	(7,128)	(9,190)	(2,227)	-	(121,251)
At 31 March 2016	-	-	-	-	-	-	-
<b>Net book value</b>							
At 31 March 2016	-	-	-	-	-	-	-
At 31 March 2015	94	2,257	65	2,765	-	739	5,920

Assets held under finance leases:

	Plant & Machinery	Computer Equipment	Total
<b>Cost</b>	£000	£000	£000
At 1 April 2015	2,139	88	2,227
Disposals	(2,139)	(88)	(2,227)
At 31 March 2016	-	-	-
<b>Depreciation</b>			
At 1 April 2015	2,139	88	2,227
Disposals	(2,139)	(88)	(2,227)
At 31 March 2016	-	-	-
<b>Net book value</b>			
At 31 March 2016	-	-	-
At 31 March 2015	-	-	-

## 13 Stocks

	2016	2015
	£000	£000
Spare parts and consumables	-	7,165

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

## 14 Debtors

	2016	2015
	£000	£000
<b>Amounts due within one year</b>		
Trade debtors	537	39,141
Amounts owed by group undertakings	3,182	16,294
Group relief receivable	1,644	-
VAT	-	10,879
Other debtors	-	787
Prepayments and accrued income	-	166
Deferred tax asset (note 16)	-	3,293
	<u>5,363</u>	<u>70,560</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 15 Creditors

	2016 £000	2015 £000
<b>Amounts falling due within one year</b>		
Trade creditors	521	16,825
Amounts owed to group undertakings	3,243	-
Corporation tax	-	6,261
Other tax and social security	246	4,227
Other creditors	1,199	7,057
Deferred capital grants	-	1,125
Maintenance bond	-	20,843
Accruals and other deferred income	2,508	37,446
	<u>7,717</u>	<u>93,784</u>
Deferred capital grants at 1 April 2015	1,125	
Disposals	<u>(1,125)</u>	
Deferred capital grants at 31 March 2016	<u>-</u>	

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

## 16 Deferred tax asset

The deferred tax asset consists of the following amounts:

	2016 £000	2015 £000
Deferred tax asset at 1 April	3,293	3,127
(Charged) / credited to profit and loss account (note 9)	<u>(3,293)</u>	<u>166</u>
Deferred tax asset at 31 March	<u>-</u>	<u>3,293</u>

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

## 17 Deferred taxation

	2016 £000	2015 £000
Capital allowances less than depreciation	-	2,763
Other timing differences	-	530
Deferred tax asset	<u>-</u>	<u>3,293</u>

## 18 Called up share capital

	2016 £	2015 £
<b>Authorised</b>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<b>Allotted, called up and fully paid</b>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 19 Pension scheme

**Railways Pension Scheme – First ScotRail Section**

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 21.

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme. The last full actuarial 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 31 March 2015, the day prior to franchise expiry; at this date the market value of the scheme's assets totalled £525.1m. The actuarial value of these assets was sufficient to cover 72.5% of the benefits which had accrued to the scheme's members. As part of the franchise transfer process, the company 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 10.28% for employees and 15.42% for employers.

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

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

The key assumptions used in this update were as follows:

	2015 %
Discount rate	3.50
Expected rate of salary increases	3.45
Inflation	2.95
Future pension increases	1.85

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

	2016 £m	2015 £m
Current service cost	-	22.3
Interest cost	-	3.6
Impact of franchise adjustment on interest cost	-	(3.4)
	-	22.5

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

The actuarial gain on scheme assets was £nil (2015: £20.3m).

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

	2016 £m	2015 £m
Fair value of scheme assets	-	525.1
Present value of defined benefit obligations	-	(724.2)
Rail franchise adjustment (60%)	-	119.5
Adjustment for employee share of deficit (40%)	-	79.6
Net pension liability recognised in the balance sheet	-	-

## NOTES TO THE FINANCIAL STATEMENTS

## 19 Pension scheme (continued)

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

	2016 £m	2015 £m
At 1 April	-	595.7
Current service cost	-	22.3
BRASS <sup>1</sup> contribution adjustment	-	(0.6)
Interest cost	-	16.0
Employee share of change in DBO (not attributable to franchise adjustment)	-	57.6
Actuarial loss	-	48.5
Benefit payments	-	(15.3)
At 31 March	-	724.2

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

	2016 £m	2015 £m
At 1 April	-	461.9
Interest income on assets	-	12.4
Company contributions	-	14.6
BRASS <sup>1</sup> contribution adjustment	-	(0.6)
Employee contributions	-	10.0
Employee share of return on assets	-	21.8
Gain on assets	-	20.3
Benefits paid from schemes	-	(15.3)
At 31 March	-	525.1

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

	2016 £m	2015 £m
At 1 April	-	(130.0)
Interest on franchise adjustment	-	(3.4)
Employee share of change in DBO (attributable to franchise adjustment)	-	(27.6)
Actuarial gain on franchise adjustment	-	(38.0)
At 31 March	-	(199.0)

The analysis of the scheme assets was as follows:

	Fair value of assets 2015 £m
Cash Plus <sup>2</sup>	411.7
Infrastructure	23.7
Private Equity	63.8
Debt instruments	25.4
Cash	0.5
	<u>525.1</u>

Note

<sup>1</sup> BRASS is the Railways Pension Scheme additional voluntary contribution arrangement.

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

## NOTES TO THE FINANCIAL STATEMENTS

**19 Pension Scheme (continued)**

The pension deficit is what the company expects to fund over the term of the 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 £m	2015 £m
<b>Profit and loss account</b>		
Unwinding of discount on franchise adjustment	-	(3.4)
Intangible asset amortisation	-	0.7
Deferred taxation	-	0.5
Impact on profit for the year	-	(2.2)
<b>Statement of recognised income and expense</b>		
Actuarial gains on franchise adjustment	-	(38.0)
Deferred tax on actuarial gains	-	7.6
	-	(30.4)

**20 Ultimate parent company**

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

The company's immediate parent company is First Rail Holdings Limited.

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

**21 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 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 deferred 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 results in a reduction to the net interest previously disclosed of £8,203k resulting in a deferred tax impact of £1,723k. 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	19,340
Reduction to net interest on pension scheme	(8,203)
Deferred tax on reduction to net interest on pension scheme	1,723
Profit for year ended 31 March 2015 under FRS 102	12,860