

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2014



**Company Registered
Number: 3097532**

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2014

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STRATEGIC REPORT
31 March 2014

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

Principal activities

The company is part of FirstGroup plc and provides tram operating services to the concessionaire, Tramtrack Croydon Limited, and, ultimately, to Transport for London.

Business review, future prospects and going concern

Tram services have continued to operate satisfactorily in the year. Turnover increased by 2.20% (2013: 13.09%). Operating profit margin increased to 12.84% (2013: 12.26%).

The results showed a profit before tax of £1,692,000 (2013: £1,580,000) which is detailed in the profit and loss account on page 9.

The year saw a higher margin due to a smaller than expected increase in costs. This occurred having taken the opportunity to drive down some major external charges during the year. Costs though, are still a concern, with the future added pressures on payroll of UK Government and EU regulation changes, pensions and for external charges on policing.

Key performance indicators

In addition to the principal financial performance measures the company also monitors the following key performance indicator: operator controlled performance of scheduled kilometres in the year was 99.34% (2013: 99.10%).

Principal risks and uncertainties

To fully consider both opportunities and risks, the management team consult regularly. Risk is an inherent part of doing business. The management of the risks is based on a balance of risk and reward determined through careful consideration of both the potential likelihood and impact. The principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

Information technology

The company relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error, could result in a service interruption, accident or misappropriation of confidential information (including credit card data). Process failure, security breach or other operational difficulties may also lead to revenue loss. Extensive security controls are in place, which in conjunction with policy and procedures are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

STRATEGIC REPORT**31 March 2014**

Principal risks and uncertainties (continued)**Customer service**

The company's revenues are at risk if it does not continue to provide the level of service expected by the customer through its contractual obligations.

Litigation

The company has three main insurable risks: third party claims arising from passenger accidents, employee injuries and property damage. The company has a very strong focus on safety - it is one of our core values. The size of the company's operations is such that there are a number of low value injury claims which the company self-insures up to certain limits. It purchases insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers.

Environment and sustainability

The key risk facing the company in this area relates to reducing the environmental impact of the business with a focus on reducing waste and energy usage across its trams and office. A number of initiatives are in place, led by the Safety Executive Group to meet our customers' requirements in this area.

Business continuity and acts of terrorism

A major incident or act of terrorism could impact on the company's ability to trade. In the event of a potentially disruptive incident, detailed plans are in place to maintain business continuity.

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.

Business strategy

If the company adopts the wrong business strategy or does not implement its strategies effectively, the business may be negatively impacted. Strategic risk needs to be properly understood and managed to sustain long-term benefit for all stakeholders. A clear strategy is in place to regularly monitor costs and business performance.

STRATEGIC REPORT
31 March 2014

Principal risks and uncertainties (continued)**Economic and market risks**

The unprecedented economic slowdown and reducing job security is resulting in an increasing demand for value from our customers. Challenges to household/business disposable income and competitor pricing positions can affect the performance of the company in terms of costs only. Focus continues on delivering a punctual service with excellent customer service standards and mitigating any cost pressures. This is achieved through effective management of the businesses activities.

Financial risk management objectives and policies

The company's principal financial assets are bank balances, trade debtors and intercompany receivables. 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 sufficient processes in place to ensure debtors are collected in a timely manner. The credit risk on liquid funds is limited because the counterparties are banks.

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

Tramlink Depot
Coomber Way
Croydon
CRO 4TQ



A Wlodarski
Director
12 December 2014

DIRECTOR' REPORT
31 March 2014

{tc "Directors' report" \f Contents}The directors have pleasure in submitting their annual report and financial statements report for the year ended 31 March 2014.

Results and dividends

The results showed a profit before tax of £1,692,000 (2013: £1,580,000) which is detailed in the profit and loss account on page 9.

The directors have not recommended payment of a dividend of £nil (2013: nil).

Directors

The directors who held office throughout the year and subsequently were:

Nick Chevis
John Rymer
Michael Steward
David Gausby
Adrian Wlodarski
Andrew James
Stephen Duckering
Vernon Barker

Going concern

As at 31st March 2014 the company had cash of £3,163,000 and net assets of £2,738,000, but uncertainty in the economic environment still exists. However, the company operates a Retail Price Index linked government backed contract until at least 2030 with the ability to renegotiate for changes in the cost base every five years. The most recent changes to the base contract were agreed from May 2010 and next being due in May 2015. Hence, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in the financial statements.

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.

Directors' indemnity

Qualifying third party indemnity provisions (as defined in section 234 of the companies Act 2006) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company

DIRECTORS' REPORT
31 March 2014

Disabled persons

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

Colleague engagement, retention and capability

The company employs around 195 colleagues who are critical to the success of our business. Maintaining good relations with colleagues and investing in their training and development is essential to the efficiency and sustainability of the company's operations. The company's employment policies and remuneration and benefits packages are regularly reviewed and designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the company uses to understand and respond to colleagues' needs. Processes are also in place to identify talent and actively manage succession planning throughout the business

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 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 provision of section 418 of the Companies Act 2006.

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

Tramlink Depot
Coomber Way
Croydon
CRO 4TQ



A Wlodarski
Director
12 December 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 to disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF TRAM OPERATIONS LIMITED

We have audited the financial statements of Tram Operations Limited for the year ended 31 March 2014, which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholder's funds, and the related notes 1 to 22. 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 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 Practice Board'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. 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRAM
OPERATIONS LIMITED (continued)**

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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed in the Companies Act 2006

In our opinion the information 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.



Mark Tolley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
12 December 2014

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2014

	Notes	2014 £000	2013 £000
Turnover	2	13,176	12,892
Operating costs	3	<u>(11,484)</u>	<u>(11,312)</u>
Profit on ordinary activities before taxation	7	1,692	1,580
Tax charge on profit on ordinary activities	8	<u>(410)</u>	<u>(390)</u>
Profit on ordinary activities after taxation and for the financial year	16	<u>1,282</u>	<u>1,190</u>

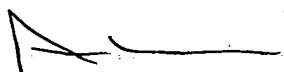
All activities in the current and preceding year relate to continuing operations.

No separate Statement of Total Recognised Gains or Losses is given as all gains and losses for the current and preceding year passed through the profit and loss account.

BALANCE SHEET
At 31 March 2014
Company Registered Number: 3097532

	Notes	2014		2013	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		30		40
Current assets					
Debtors –	11				
-due within one year		3,828		3,751	
-due after one year		134		143	
Cash at bank and in hand		<u>3,163</u>		<u>1,591</u>	
		7,125		5,485	
Creditors:					
Amounts falling due within one year	12	<u>(4,166)</u>		<u>(3,954)</u>	
Net Current Assets			<u>2,959</u>		<u>1,531</u>
Total assets less current liabilities			2,989		1,571
Provisions for Liabilities and Charges	14		(251)		(124)
Net assets			<u>2,738</u>		<u>1,447</u>
Capital and reserves					
Called up share capital	15		-		-
Profit and loss account	16		<u>2,738</u>		<u>1,447</u>
Shareholders' funds			<u>2,738</u>		<u>1,447</u>

These financial statements of Tram Operations Limited registered number 3097532 were approved by the Board of Directors on 12th December 2014 and were signed on its behalf by:



A Wlodarski
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
For the year ended 31 March 2014

	2014	2013
	£000	£000
Profit for the financial year	1,282	1,190
FRS 20 Share based payment charge	9	11
Net increase in shareholder's funds	<u>1,291</u>	<u>1,201</u>
Opening shareholder's funds	<u>1,447</u>	<u>246</u>
Closing shareholder's funds	<u><u>2,738</u></u>	<u><u>1,447</u></u>

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014

1 Principal accounting policies

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

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis and in accordance with United Kingdom Generally Accepted Accounting Practice. They have been prepared on a going concern basis as described in the going concern statement in the Strategic Report on page 1.

(b) 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.

Plant and equipment	-	2 to 8 years straight line
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(c) Leases

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.

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014

1 Principal accounting policies (continued)**(e) Pension costs**

The company participates in the FirstGroup UK Bus Pension Scheme and Flexible Benefits Scheme.

The company is unable to separately identify its share of the schemes' assets and liabilities. It therefore accounts for the schemes as if they were defined contribution schemes. Contributions are charged to the profit and loss account as they become payable.

(f) Turnover

Turnover includes amounts attributable to a fixed contracted income predominantly based on providing drivers and support services to run trams to a Timetable and also includes a small amount of other variable income.

(g) Deferred contract costs

Deferred contract costs represent pre-contract expenditure incurred and are deferred and amortised over the contract term.

(h) 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 estimate of shares that will eventually vest and is adjusted for the effects of non-market based vesting conditions.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations (refer to note 6).

2 Turnover

Turnover is stated net of VAT. The whole of the turnover derives within the United Kingdom and is based on an Annual RPI inflated Fee agreed every five years. The company has one principal class of business, namely, the provision of passenger transport services.

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014

3 Operating costs

	2014 £000	2013 £000
Staff costs (note 4)	9,016	8,843
External charges	2,446	2,445
Depreciation	22	24
	<u>11,484</u>	<u>11,312</u>

4 Employee numbers and costs

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

	2014 Number	2013 Number
Operations	179	180
Maintenance	1	1
Administration	13	13
	<u>193</u>	<u>194</u>

The aggregate payroll costs of these persons were as follows:

	2014 £'000	2013 £'000
Wages and salaries	7,688	7,587
Social security costs	807	788
Other pension costs	512	457
FRS20 Share based Payment Charge	9	11
	<u>9,016</u>	<u>8,843</u>

5 Directors' remuneration

Certain directors received remuneration from other group companies, in the current and prior years, details of which are disclosed in their accounts. It is not considered practical to allocate this between services provided to those companies, and services provided in their capacity as directors to Tram Operations Limited.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2014

5 Directors' remuneration (continued)

The remuneration of Tram Operations directors during the year paid by Tram Operations Limited was as follows:

	2014 £'000	2013 £'000
Aggregate emoluments (excluding pension contributions)	309	301
Company pension contributions to Final Salary schemes	60	43
	<u>369</u>	<u>344</u>

Retirement benefits accrue to three directors (2013: three) under a defined benefit scheme.

Emoluments of the highest paid director amounted to:

	£'000	£'000
Aggregate emoluments (excluding pension contributions)	136	131
Company pension contributions to Final Salary schemes	24	18
	<u>160</u>	<u>149</u>

Accrued pension balance and lump sum at the end of the year amounted to £30,046 (2013: £27,502) and £145,500 (2013: £131,091), respectively.

6 Share based payments

Equity-settled share option plans

The Group, defined as the ultimate parent company First Group Plc, recognised total expenses of £4.6m (2013: £5.6m) related to equity-settled share-based payment transactions. The entity recognised a total charge of £9,000 in the year.

(a) Save as you earn (SAYE)

The Group operates an HMRC approved savings related share option scheme. Grants were made as set out below. The scheme is based on eligible employees being granted options and their agreement to opening a sharesave account with a nominated savings carrier and to save weekly or monthly over a specified period. Sharesave accounts are held with Yorkshire Building Society. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months.

	SAYE Dec 2009 Options Number	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number	SAYE Dec 2013 Options Number
Outstanding at the beginning of the year	2,092,655	2,284,801	2,530,668	2,957,100	-
Awarded during the year	-	-	-	-	7,411,980
Bonus element of rights issue	469,111	483,423	533,497	643,399	-
Exercised during the year	-	-	-	(1,049)	-
Lapsed during the year	(2,561,766)	(591,832)	(555,406)	(500,300)	(51,844)
Outstanding at the end of the year	-	2,176,392	2,508,759	3,099,150	7,360,136
Exercisable at the end of the year	-	2,176,392	-	-	-
Weighted average exercise price (pence)	310.0	319.0	271.5	143.9	94.1
Bonus element of rights issue	(57.3)	(58.9)	(50.1)	(26.6)	-
New weighted average exercise price (pence)	252.7	260.1	221.4	117.3	-
Weighted average share price at date of exercise (pence)	N/A	N/A	N/A	122.5	N/A

NOTES TO THE FINANCIAL STATEMENTS

31 March 2014

(b) Executive share option scheme (ESOS)

Options are exercisable between three and ten years of the date of grant provided that the pre-determined performance criteria are met.

	ESOS 2003 Options Number	ESOS 2004 Options Number
Outstanding at the beginning of the year	258,183	254,426
Bonus element of rights issue	-	57,618
Lapsed during the year	(258,183)	-
Outstanding at the end of the year	-	312,044
Exercisable at the end of the year	-	312,044
Weighted average exercise price as adjusted for bonus element of rights issue (pence)	234.0	224.3
Weighted average share price at date of exercise (pence)	N/A	N/A

(c) Deferred bonus shares (DBS)

	DBS 2004 Options Number	DBS 2005 Options Number	DBS 2006 Options Number	DBS 2007 Options Number	DBS 2008 Options Number
Outstanding at the beginning of the year	5,989	32,952	86,616	170,397	75,048
Granted during the year	-	-	-	-	-
Bonus element of rights issue	1,356	7,465	19,124	35,255	16,705
Forfeited during the year	-	-	-	-	-
Exercised during the year	-	(5,495)	(2,510)	(17,652)	(5,272)
Outstanding at the end of the year	7,345	34,922	103,230	188,000	86,481
Exercisable at the end of the year	7,345	34,922	103,230	188,000	86,481
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	N/A	139.6	124.7	196.4	129.0

	DBS 2009 Options Number	DBS 2010 Options Number	DBS 2011 Options Number	DBS 2012 Options Number	DBS 2013 Options Number
Outstanding at the beginning of the year	81,569	399,822	493,304	919,120	-
Granted during the year	-	-	-	-	1,748,987
Bonus element of rights issue	18,064	51,791	107,302	198,562	396,196
Forfeited during the year	-	-	(24,680)	(70,558)	(114,427)
Exercised during the year	(14,504)	(233,165)	(13,822)	(21,915)	-
Outstanding at the end of the year	85,129	218,448	562,104	1,025,209	2,030,756
Exercisable at the end of the year	85,129	218,448	-	-	-
Weighted average exercise price (pence)	Nil	Nil	Nil	Nil	Nil
Weighted average share price at date of exercise (pence)	128.4	157.2	166.8	216.1	N/A

(d) 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 of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

At 31 March 2014 there were 7,903 (2013: 8,306; 2012: 8,354) participants in the BAYE scheme who have cumulatively purchased 9,201,084 (2013: 6,159,479; 2012: 6,869,043) shares with the Company contributing 2,998,927 (2013: 1,936,789; 2012: 2,128,810) matching shares on a cumulative basis.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2014

(e) Long Term Incentive Plan (LTIP)

Awards under the LTIP scheme vest over the three year periods to 31 March from year of award with 50% of the award being dependent upon Adjusted EPS performance over the vesting period and the other 50% being dependent upon total shareholder return over the same period compared to a comparator group.

	LTIP 2010 Options Number	LTIP 2011 Options Number	LTIP 2012 Options Number	LTIP 2013 Options Number
Outstanding at the beginning of the year	3,774,007	4,726,555	5,998,235	-
Granted during the year	-	-	-	12,926,564
Bonus element of rights issue	-	953,212	1,280,765	-
Forfeited during the year	-	(846,544)	(770,863)	(364,239)
Lapsed during the year	(3,774,007)	-	-	-
Outstanding at the end of the year	-	4,833,223	6,508,137	12,562,325
Weighted average share price at date of exercise (pence)	Nil	Nil	Nil	Nil

(f) Tim O'Toole retention award

	2012 Number	2013 Number	2014 Number	Award price (p)
Outstanding at the beginning of the year	214,826	214,826	214,826	Nil
Bonus element of rights issue	-	-	48,664	-
Exercised during the year	-	-	(263,490)	-
Outstanding at the end of the year	214,826	214,826	-	-

These options vested on 1 November 2013. There were no performance conditions attaching to these options. The fair values of the options granted during the last two years were measured using a Black-Scholes model. The inputs into the Black-Scholes model were as follows:

	2014	2013
Weighted average share price at grant date (pence)		
- DBS	127.4	220.1
- SAYE December 2012	-	188.9
- SAYE December 2013	116.0	-
- LTIP	119.0	223.1
Weighted average exercise price at grant date (pence)		
- DBS	-	-
- SAYE December 2012	-	143.9
- SAYE December 2013	94.1	-
- LTIP	-	-
Expected volatility		
- DBS	N/A	43%
- SAYE December 2012	-	35%
- SAYE December 2013	35%	-
- LTIP	48%	31%
Expected life (years)		
- DBS	3	3
- SAYE schemes	3	3
- LTIP	2	3
Rate of interest		
- DBS	N/A	0.4%
- SAYE December 2012	-	0.4%
- SAYE December 2013	1.0%	-
- LTIP	0.6%	0.4%
Expected dividend yield		
- DBS	0%	10.8%
- SAYE December 2012	-	12.5%
- SAYE December 2013	0%	-
- LTIP	0%	10.6%

NOTES TO THE FINANCIAL STATEMENTS

31 March 2014

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

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

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

	2014	2013
Weighted average fair value of options at grant date (pence)		
- DBS	127.4	161.9
- SAYE December 2012	-	26.0
- SAYE December 2013	39.5	-
- LTIP	81.9	104.7

The company has recognised a total expense of £9,000 (2013: £11,000) relating to equity-settled share-based payment transactions.

7 Profit on ordinary activities before taxation

	2014	2013
	£'000	£'000
This is stated after charging		
Auditor's remuneration for audit of company's annual accounts (No other services were provided by Deloitte LLP in either year).	3	3
Depreciation	22	24
Rentals payable under operating leases		
- plant and machinery	37	24
- other	31	31

8 Tax charge on profit on ordinary activities

	2014	2013
	£000	£000
Current taxation		
Group relief payable	394	387
Adjustment in respect of prior years	83	(1)
	<u>477</u>	<u>386</u>
Deferred taxation		
Origination and reversal of timing differences	(2)	(5)
Effect on decrease in tax rate on opening asset	14	1
Adjustment in respect of prior years	(79)	8
Total deferred taxation	<u>(67)</u>	<u>4</u>
Tax charge on profit on ordinary activities	<u>410</u>	<u>390</u>

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014

8 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 23% (2013: 24%). 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:

Standard rate of taxation	23.0	24.0
Factors affecting charge		
- other timing differences	0.3	0.5
- prior years' tax charge	4.9	(0.1)
Current taxation rate for the year	<u>28.2</u>	<u>24.4</u>

During the period the UK government enacted legislation to reduce the main rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The impact of this rate reduction has reduced the deferred tax liability on UK timing differences

9 Dividends

	2014 £000	2013 £000
Amounts recognised as distributions to equity shareholders in the period:		
Final dividend for the year	<u>-</u>	<u>-</u>
Dividend per share	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014
10 Tangible fixed assets

	Plant and equipment £'000
Cost	
At 1 April 2013	316
Additions	12
Disposals	(8)
At 31 March 2014	<u>320</u>
Depreciation	
At 1 April 2013	276
Charge for the year	22
Disposals	(8)
At 31 March 2014	<u>290</u>
Net book value	
At 31 March 2014	<u>30</u>
At 31 March 2013	<u>40</u>

11 Debtors

	2014 £000	2013 £000
Amounts due within one year		
Trade debtors	1,192	1,192
Amounts owed by group undertakings	2,492	2,492
Deferred tax asset (note 13)	93	26
Prepayments and accrued income	51	41
	<u>3,828</u>	<u>3,751</u>
Amounts due after one year		
Deferred contract costs	134	143
Total Debtors	<u>3,962</u>	<u>3,894</u>

The deferred tax asset has been recognised because it is anticipated that the tax deductions generated by the reversal of the timing differences will be offset against future taxable profits of the company/group undertakings by way of group relief. All intercompany balances are interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014

12 Creditors

	2014 £000	2013 £000
Amounts falling due within one year		
Trade creditors	322	242
Amounts owed to group undertakings	1,415	1,216
Corporation tax	1	1
Other creditors	242	338
Accruals and deferred income	2,186	2,157
	<u>4,166</u>	<u>3,954</u>

The intercompany balances are interest free and repayable on demand.

13 Deferred Tax

	Deferred Tax £000
At 1 April 2013	26
Credited to the profit and loss account	67
At 31 March 2014	<u>93</u>

The deferred tax asset consists of the following amounts:

	2014 £000	2013 £000
Depreciation in excess of capital allowances	9	9
Other timing differences	84	17
Deferred tax asset	<u>93</u>	<u>26</u>

The deferred tax balance is included within Debtors note 11.

14 Provisions for liabilities and charges

	Insurance claims provision £000
At 1 April 2013	(124)
Utilised	31
Charged to the profit and loss account	(158)
At 31 March 2014	<u>(251)</u>

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014

15 Called up share capital

	2014 £000	2013 £000
Authorised:		
1,000,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	<u>-</u>	<u>-</u>

16 Profit and loss account

	£000
At 1 April 2013	1,447
Retained profit for the year	1,282
Share based payment charge	9
At 31 March 2014	<u>2,738</u>

17 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 (revised), 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.

18 Operating leases

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

	2014		2013	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	31	25	31	9
Within two to five years	-	12	-	22
Total	31	37	31	31

NOTES TO THE FINANCIAL STATEMENTS
31 March 2014

19 Pension scheme**Group scheme – FirstGroup UK Bus Pension Scheme and Flexible Benefits Scheme**

The company is unable to separately identify its share of the schemes' assets and liabilities. It therefore accounts for the schemes as if they were defined contribution schemes. Contributions are charged to the profit and loss account as they become payable.

The deficit on the group schemes of £94.2m (2013: £24.7m) will affect the company through periodic adjustments to the company's contribution rate as determined by the actuary. Additional disclosures required under IAS19 have been made on a group basis in the accounts of FirstGroup plc.

The total pension cost in the year was £0.512m (2013 £0.457m) all of which relates to defined benefit schemes.

20 Capital commitments

There were no non-cancellable commitments for capital expenditure at 31 March 2014 (2013: £nil).

21 Related party transactions

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

22 Ultimate and immediate parent company and controlling party

The directors regard FirstGroup plc, a company incorporated in the United Kingdom 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 CentreWest Limited. CentreWest Limited is a wholly owned subsidiary of FirstGroup plc and therefore does not prepare consolidated accounts.

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