

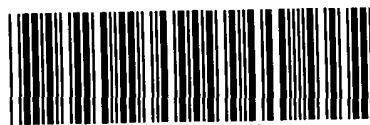
Company Registration No. 05113733

First Greater Western Limited

Report and Financial Statements

31 March 2016

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First Greater Western Limited

Report and financial statements 2016

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First Greater Western Limited

Strategic Report

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

Principal activities

The company operates passenger railway services between London Paddington and South Wales, Bristol, the West of England and the Cotswolds, commuter services to Paddington from the Thames Valley and regional services in the West of England.

Business review and future outlook

In September 2015 we began operating Great Western Railway (GWR) under the commercial terms of a new direct award which runs to 1 April 2019, with a further extension of up to one year at the discretion of the Department for Transport (DfT). With the commencement of the new GWR direct award in September 2015, we launched new branding which reflects the line's strong heritage. This change is consistent with FirstGroup's emphasis on developing local brands that connect with our customers and the communities in which we operate. Alongside the ongoing investment in the rail network, there will be a substantial fleet upgrade. As well as the InterCity Express trains already due to be introduced during the direct award period, in the year we secured approval to procure 29 new long distance trains, creating more than 1,000 additional peak-time seats into and out of Paddington every day. Overall, we will create three million more seats across the network by December 2018, as well as quicker journey times and more frequent services.

We have continued our strong track record for close partnership working with Network Rail and other industry participants to deliver infrastructure upgrade projects whilst minimising disruption for passengers. The Government's investment in rail infrastructure continues, with the £7.5bn investment in the Great Western Mainline being a key part of the national programme. Following Network Rail's review of its schedule of projects, we are working closely with them and with the DfT to support the substantial infrastructure upgrades taking place throughout the network and ensure delivery of work within appropriate timescales. In March 2016 we finalised a formal alliance between GWR and Network Rail covering five key areas of working, committing both companies to a more aligned approach. It covers improved joint planning for major upgrade projects such as electrification, to help minimise disruption for passengers as much as possible. As a consequence of GWR's close working with stakeholders, GWR and the DfT have been able to announce funding for a new study into improvements to railway infrastructure between London and Devon & Cornwall. The study, which will be carried out by Network Rail and funded and commissioned by GWR, will look at what more can be done to existing track, signalling and other railway infrastructure to improve line speed and ensure the full benefits of the new trains coming onto the network are realised. The work will inform a report which the Peninsula Rail Task Force is providing to the government this summer, and the consideration of future funding for the railway and franchises on the route.

GWR continued its profitable growth under the direct awards agreed in October 2013 and September 2015 and continued its strong progress on the fleet and infrastructure projects in conjunction with industry partners. The company made an operating profit of £56.1m (2015: £28.4m) on turnover of £1,009.7m (2015: £956.3m). Passenger receipts showed reported growth of 4.7% (2015: 9.4%) over the year (2016: £937.0m versus 2015: £895.3m). The company will continue to focus on growing revenue and on its addressable cost base in the year ahead.

Future priorities

We continue to demonstrate the extensive operational strengths as well as the fleet and infrastructure upgrade capabilities that we have built up through our involvement in major projects across our network. Through the combination of infrastructure, station and rolling stock investment with new timetables over the next several years we will deliver substantial capacity improvements which will transform the customer experience. A transformation board operates to ensure delivery of strategies, programmes and projects which are being undertaken across GWR. Working with Network Rail is critical to delivery of this programme and we recently committed to a GWR / Network Rail joint alliance in March 2016. We will continue to leverage third party investment into the railway while investing in "Customers and Communities" via our improvement fund.

Key Performance Indicators

Train operating performance improved during 2015/16 with our public performance measure moving annual average score standing at 89.5% (2015: 88.9%). Significant challenges were posed by Network Rail infrastructure reliability in the Thames Valley during the first half of the year; a recovery plan was implemented with improving results. First Greater Western's own performance was in line with our targets.

First Greater Western Limited

Strategic Report (continued)

In the latest independent Transport Focus National Rail Passenger Survey (completed during autumn 2015) GWR scored above the national average for customer satisfaction and increased its year-on-year measure for overall satisfaction by three points to 84%, its highest score since the survey began in 1999. Contributing to this, GWR launched its Customer and Communities Improvement Fund with more than 40 schemes benefiting from the £2.2m fund to support social need in areas we serve. Given the level of Network Rail infrastructure improvement works, it was extremely gratifying that GWR won the top award for the Major Possessions, Projects and Central Station Team in the Outstanding Operating Team category at the Institute of Railway Operators Golden Whistle Awards.

First Greater Western's average headcount in the year increased to 5,830 (2015: 5,608), an increase of 4.0% as a result of our investment in resources for delivering customer service, enabling training for operation during Network Rail infrastructure works and participating directly in infrastructure and other projects.

Principal risks and uncertainties

We have a well-established risk management methodology which we use throughout the business to allow us to identify and manage the principal risks which could:

- adversely affect the safety and security of the First Greater Western's employees, customer and/or assets;
- have a material impact on the financial or operational performance of the company;
- impede achievement of our strategic objectives and financial targets; and/or
- adversely impact the company's reputation or stakeholder expectations.

First Greater Western's principal risks are set out below, these risks have been assessed taking into account their potential impact, the likelihood of occurrence and any change to this compared to the prior year and the reduced risk after the implementation of controls.

Rail franchise agreements

The company is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the rail franchise agreement. This would result in the company losing the right to continue operating the affected operations and consequently, the related revenues or cash flows. The company may also lose some or all of the amounts set aside as security for its performance bond and the season ticket bond. As discussed in the business review and future outlook section of the Strategic Report, First Greater Western Limited agreed a new franchise with the DfT to run the First Greater Western franchise for up to four and a half more years. Throughout the new franchise there will be significant change including major infrastructure work, electrification and re-signalling as well as the introduction of new trains, which will require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational risk to the company. Compliance with franchise conditions are closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Information technology

Our business relies on information technology in all aspects of its operations. 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 and personal data). Process failure, security breach or other operational difficulties may also lead to revenue loss. Prolonged failure of our sales website could also adversely affect revenues. As a result of the continued threat of cyber-attacks our operations are implementing new threat detection systems. The company has increased its focus on asset management and further enhanced its IT security processes and procedures during the year.

First Greater Western Limited

Strategic report (continued)

Political and regulatory issues

Our 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 First Greater Western. 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. First Group actively engages with the relevant bodies to help ensure that we are properly positioned to respond to any proposed changes.

Competition

First Greater Western's main competitors include private car and other public and private transport operators across our network. Increased competition can result in lost business, revenue and reduced profitability. The company continues to focus on service quality and performance as priorities in making our service attractive to passengers and other customers. In addition, we work with local and national bodies to promote measures aimed at increasing demand for our services.

Customer service

First Greater Western's revenues are at risk if it does not continue to provide the level of service expected by customers. Ongoing engagement with customers and community stakeholders takes place across our network, including through 'meet the manager' events, customer panels, consultations and local partnerships. The Board also monitors customer service KPIs to ensure that strict targets are being met.

Pensions

First Greater Western primarily participates in a defined benefits pension scheme. Future cash contribution requirements may increase or decrease based upon financial markets, notably investment returns/valuations, the rates used to value the liabilities and through changes to life expectancy and could result in material changes in the accounting cost and cash contributions required. Under UK Rail franchise agreements First Greater Western are not responsible for any residual deficit at the end of a franchise so there is only short term cash flow risk within our franchise.

Employee costs and relations

Labour costs represent a significant component of the company's operating costs. Labour shortages, or low unemployment rates, could hinder the company's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. To mitigate this risk, the company seeks to structure its recruitment and retain the right people. Our employees are key to service delivery and therefore it is important that good employee relations are maintained. Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular leadership conferences, employee surveys and the presence of an Employee Director (voted for by the employees to represent them) on the company's board.

Fuel costs

Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to rise because of national strikes, world supply difficulties, disruption of refining capacity or oil imports the resultant higher fuel prices and disruption to services could adversely impact the company's operating results. To mitigate the risks of rising fuel costs the company works with FirstGroup plc who regularly enter into forward contracts to buy fuel at fixed prices. In addition, the company seeks to limit the impact of unexpected fuel price rises through efficiency and pricing measures.

First Greater Western Limited

Strategic report (continued)

Severe weather and natural disasters

Across our network we are experiencing greater and more frequent adverse weather disruption impacting our service levels. Severe weather can reduce profits, for example through lower demand for our services, increased costs and business disruption. We have severe weather action plans and procedures to manage the impact on our operations.

Terrorism

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

Economy

The level of economic activity affects the number of train journeys taken by passengers in the UK. Any changes in economic activity may impact upon the passenger numbers and hence our operations. A downturn in economic conditions could have a negative impact on our business in terms of reduced demand and reduced opportunities for growth. The same factors could also affect our key suppliers.

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



Dr Benjamin Caswell
Director
7 July 2016
Milford House
1 Milford Street
Swindon
SN1 1HL

First Greater Western Limited

Directors' report

The directors have pleasure in submitting their annual report and 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.

Directors

The directors who held office throughout the year (except as noted) and subsequently appointed are as follows:

Directors who held office throughout the year:

Dr Benjamin Caswell
David Gausby
Andrew Mellors
Clive Burrows
Mark Hopwood

Martin Stoolman
Matthew Golton
Hugh Clancy
Benjamin Rule

The following directors resigned during the year; Susan Evans 31 July 2015, Diane Burke 31 March 2016, Vernon Barker 17 April 2015. The following director was appointed during the year; Stephen Montgomery 7 October 2015.

Employee consultation

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

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.

Going concern

Following successful negotiation with the DfT an agreement was reached to enter into a Direct Agreement with the company for a new franchise with duration of up to four and a half more years. As a result, we will continue to run First Greater Western to at least 1 April 2019, with a further extension of up to one year at the DfT's discretion. The directors have considered the going concern assumption given the current economic climate, the Direct Agreement to at least 1 April 2019, and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future, being at least 12 months from the date of approving these financial statements. The directors have considered the company forecasts and parent company commitment in forming this judgement. A Letter of Support has been provided by FirstGroup plc to state that it will provide the company with sufficient working capital to allow it to continue in business for at least twelve months from date of signing of the annual accounts with reference to the net current liabilities position of £38.5m on the balance sheet.

After making such enquiries and considering the above facts, the directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further information is included within note 1 of the principal accounting policies.

First Greater Western Limited

Directors' report (continued)

Financial risk management objectives and policies

The company's principal financial assets are bank balances and trade debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant concentration of credit risk, with exposure spread over a large number of customers. The credit risk on liquid funds is limited because the counterparties are banks. Liquidity within the company remains strong and due to the nature of the rail industry with the vast majority of turnover transactions paid for in advance and the profitability of the company, liquidity is not considered a significant risk. This is demonstrated in cash and ring fenced cash balances in note 15. Certain risks, for example, fuel price, are hedged on a group basis, the company does not enter directly into any derivative financial instruments.

Financial matters

The results for the year are given in the profit and loss account on page 11.

A final dividend of £19m (2015: £30m) was paid to First Rail Holdings Limited, the company's immediate controlling entity. An interim dividend of £20m (2015: £20m) was paid during the year, again to First Rail Holdings Limited, reference note 20.

Under FRS102 First Greater Western has taken advantage of a number of reduced disclosures. Further information is available within the principal accounting policies section. This position has been agreed with First Rail Holdings Limited, the company's immediate controlling entity.

Auditor 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 provision of s418(2) 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



Dr Benjamin Caswell
Director
7 July 2016
Milford House
1 Milford Street
Swindon
SN1 1HL

First Greater Western Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each 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 Accountancy 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 those 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; 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 Greater Western Limited

We have audited the financial statements of First Greater Western 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 25. 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.

Opinion on other matters 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.

Independent auditor's report to the members of First Greater Western 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 Accountants and Statutory Auditor
London, United Kingdom
7 July 2016

First Greater Western Limited

Profit and Loss Account Year ended 31 March 2016

	Notes	2016 £'000	Restated* 2015 £'000
Turnover	2	1,009,705	956,329
Operating costs			
- General		(950,356)	(920,802)
- Intangible asset amortisation		(3,250)	(7,150)
Total operating costs	3	(953,606)	(927,952)
Operating profit		56,099	28,377
Net interest receivable/(payable)	7	687	(752)
Profit on ordinary activities before taxation	8	56,786	27,625
Tax charge on profit on ordinary activities	9	(11,556)	(6,202)
Retained profit for the year, transferred to reserves		45,230	21,423

All activities relate to continuing operations.

Statement of comprehensive income Year ended 31 March 2016

	£'000	2016 £'000	£'000	Restated* 2015 £'000
Profit for the financial year		45,230		21,423
Actuarial gain/(loss) due to scheme assets and liabilities	113,415		(63,192)	
Actuarial (loss)/gain due to rail franchise adjustment	(113,415)		80,155	
UK deferred taxation attributable to actuarial gain	-		(3,392)	
		-		13,571
Total comprehensive income for the year		45,230		34,994


* Details of the restatement are disclosed in note 25.

First Greater Western Limited

Balance sheet At 31 March 2016

	Notes	£'000	2016 £'000	£'000	2015 £'000
Assets employed:					
Fixed assets					
Intangible assets	10		-		3,250
Tangible assets	11		66,902		52,532
			<u>66,902</u>		<u>55,782</u>
Non-current assets					
Long term receivables	12		7,681		-
Current assets					
Stocks	13	15,273		15,251	
Debtors	14	91,222		90,494	
Cash at bank and in hand	15	202,889		171,138	
			<u>309,384</u>	<u>276,883</u>	
Creditors: amounts falling due within one year	16	(340,357)		(314,160)	
Provisions for liabilities and charges: amounts falling due within one year	17	(7,562)		-	
Net current liabilities			<u>(38,535)</u>		<u>(37,277)</u>
Total assets less current liabilities			<u>36,048</u>		<u>18,505</u>
Creditors: amounts falling due after more than one year			-		-
Provisions for liabilities and charges: amounts falling due after more than one year	18		(18,959)		(8,105)
Net assets excluding pension liability			<u>17,089</u>		<u>10,400</u>
Pension liability	22		-		-
Net assets			<u>17,089</u>		<u>10,400</u>
Financed by:					
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account			17,089		10,400
Shareholder's funds			<u>17,089</u>		<u>10,400</u>

The financial statements of First Greater Western Limited, registered number 05113733 were approved by the Board of Directors on 7 July 2016 and were signed on its behalf by:


 Dr Benjamin Caswell
 Director

First Greater Western Limited

Statement of changes in equity Year ended 31 March 2016

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2014	-	25,142	25,142
Total comprehensive income for the financial year	-	34,994	34,994
Dividend payments	-	(50,000)	(50,000)
Share-based payments	-	264	264
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2015	-	10,400	10,400
Total comprehensive income for the financial year	-	45,230	45,230
Dividend payments	-	(39,000)	(39,000)
Share-based payments	-	459	459
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2016	-	17,089	17,089

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

1. Principal accounting policies

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

(a) General information and basis of accounting

First Greater Western Limited is a company incorporated in the United Kingdom under the Companies Act. The registered office address is Milford House, 1 Milford Street, Swindon, Wiltshire, SN1 1HL. The nature of the company's operations and its principal activities are set out in the Strategic report on page 2. The functional currency of First Greater Western 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 under a historical cost convention and on a going concern basis as described in the going concern statement in the Directors' Report on page 6, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. This is the first year that the company has presented its financial statements under FRS102, reference note 25. As a consequence of adopting FRS102 restatements have been made to prior year numbers.

First Greater Western Limited meets the definition of a qualifying entity under FRS102 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 the shorter of their estimated useful economic lives or the duration of the franchise, the duration of the franchise includes the franchise extension period to 1 April 2019. Our depreciation policy is as follows:

Passenger carrying vehicles	-	2 to 10 years straight-line/duration of franchise
Other plant and equipment	-	3 to 10 years straight-line/duration of franchise

(d) Intangible fixed assets and depreciation

The rail franchise agreement intangible asset represents the part of the economic benefit derived from the rail 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 the duration of the franchise in which they relate, the 2015-16 intangible asset related to the franchise closing September 2015.

(e) 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.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

1. Principal accounting policies (continued)

(f) Government grants and subsidies

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

(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).

(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 temporary 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

Company specific schemes

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

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the income statement. Where changes in assumptions can be made without changing the Trustee agreement these are recognised as a change in assumption in other comprehensive income. 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.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

1. Principal accounting policies (continued)

(k) Rail franchise adjustment

In calculating First Greater Western's pension obligation in respect of the RPS, the company's total pension deficit in accordance with FRS102 Section 28 has been calculated. This deficit is reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the company is not required to fund. The franchise adjustment, which has been calculated by FirstGroup's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flow of the Group's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to First Greater Western and recognised in the accounts.

The company has re-estimated the calculation of the franchise adjustment under FRS102 Section 28 to better reflect the commercial terms of our shorter franchise. This change in accounting estimate has been triggered by the new Direct Award and has been applied prospectively from 1 April 2015.

(l) Turnover

Turnover in UK Rail includes amounts attributable to the train operating companies ("TOCs"), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts.

(m) Future ticket deferral

Where season tickets or railcards are issued in excess of one week's duration, the attributable share of income is deferred within creditors and is recognised in the profit and loss account over the period covered by the season ticket or railcard.

(n) Provisions

Provisions are recognised when the company has a present obligation as a result of a past event and it is probable that the company will be required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Provisions are split between those falling due within one year and those falling greater than one year.

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

Fair value is measured by use of a Black-Scholes model 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.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

1. Principal accounting policies (continued)

(p) 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 and franchise accounting

Judgements are made on an ongoing basis about the recoverability of amounts due and the carrying value of assets and liabilities arising from the company's franchise and long term contracts. Regular forecasts are compiled on the outcome of these types of accounting judgements and contracts, which requires assessments and judgement relating to the expected level of revenue and costs included.

The useful economic life of assets is determined by reference to the length of the franchise and matched to the franchise end date. The residual value of the assets is determined by their condition at the franchise end date and the amount of maintenance that has been carried out during the period of operation.

First Greater Western Limited has a number of contractual relationships including those with the DfT and Network Rail. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOC has access to shared infrastructure such as railway lines. Judgement is required by management as to the amount receivable and also payable taking account of the information available at the time.

Defined benefits pension arrangements

Measurement of defined benefit pension obligations requires estimation of suitable discount rate, the expected return of assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and the inflation rate assumption.

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 outcomes of tax uncertainties requires judgement to be made regarding the result of negotiations with and enquires from tax authorities. Management assessments are based on business transaction facts and circumstances and the status of ongoing discussions with the relevant tax authorities.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

2. Turnover and profit on ordinary activities before taxation

Turnover represents the amounts receivable for services supplied to customers during the year and includes amounts receivable for tendered services and concessionary fare schemes.

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.

	2016 £'000	2015 £'000
Passenger receipts	936,981	895,332
Other revenue	72,724	60,997
	<u>1,009,705</u>	<u>956,329</u>

3. Operating costs

	Note	2016 £'000	2015 £'000
Raw materials and consumables		103,718	101,851
Staff costs	4	318,092	292,074
Other external charges		376,732	388,321
Net franchise payments		106,179	100,094
Grant amortisation releases		(8,548)	(13,115)
Depreciation and other amounts written off tangible fixed assets and intangible fixed assets		<u>57,433</u>	<u>58,727</u>
		<u>953,606</u>	<u>927,952</u>

4. Employee numbers and costs

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

	2016 Number	2015 Number
Traincrew including traincrew management	2,959	2,890
Maintenance	1,218	1,187
Customer service	1,351	1,289
Administration	<u>302</u>	<u>242</u>
	<u>5,830</u>	<u>5,608</u>

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

4. Employee numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2016 £'000	2015 £'000
Wages and salaries	275,375	245,961
Social security costs	20,329	19,242
Other pension costs	22,388	26,871
	<u>318,092</u>	<u>292,074</u>

5. Directors' remuneration

Certain directors (David Gausby, Vernon Barker, Clive Burrows, Stephen Montgomery and Hugh Clancy) received remuneration from FirstGroup plc, the ultimate parent company, and First Rail Holdings Limited, 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 First Greater Western Limited during the current and prior year. Details of retirement benefits accruing to the directors under the group defined benefit schemes are detailed in the financial statements of FirstGroup plc.

The remuneration of the directors during the year paid by First Greater Western Limited was as follows:

	2016 £'000	2015 £'000
Aggregate emoluments (excluding pension contributions)	1,463	1,559
Compensation for loss of office	124	-
	<u>1,587</u>	<u>1,559</u>

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.

	2016 Number	2015 Number
The number of directors who:		
Are members of a defined benefit pension scheme	<u>13</u>	<u>12</u>

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

5. Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2016 £'000	2015 £'000
Aggregate emoluments:		
Basic	239	203
Bonus	160	128
Allowances	10	10
Benefits	2	2
	<u>411</u>	<u>343</u>
<i>Defined benefit scheme</i>		
Accrued pension at end of year	26	22
Accrued lump sum at end of year	<u>15</u>	<u>13</u>

The highest paid director is entitled to receive shares under the FirstGroup long-term incentive plan.

6. Share-based payments

Save as you earn (SAYE)

The company's ultimate parent company 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 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 for 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.

Divisional Incentive Plan (DIP)

During the year FirstGroup introduced a Divisional Incentive Plan for those employees immediately below the FirstGroup Executive Directors. This provides a strong focus on each division achieving specific goals to underpin and drive overall company performance. To avoid paying excessive benefits, the value of the Long Term Incentive Plan award was reduced proportionally to compensate for participation in the Divisional Incentive Plan. The performance period of the plan is two years and the committee will review whether it is still relevant and necessary following that period.

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 £459,000 (2015: £264,000) relating to equity-settled share-based payment transactions.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

7. Net interest receivable/(payable)

	2016 £'000	Restated* 2015 £'000
<i>Interest payable and similar charges</i>		
Amounts payable to group undertakings	(348)	(1,006)
Net interest on defined benefit liability	-	(575)
	<u>(348)</u>	<u>(1,581)</u>
<i>Interest receivable and similar income</i>		
Bank interest	1,035	829
Net interest receivable/(payable)	<u>687</u>	<u>(752)</u>

* Details of the restatement are disclosed in note 25.

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 the annual accounts	147	113
- Deloitte LLP non-audit fee for other services	10	5
Depreciation on tangible and amortisation from intangible owned assets	57,433	58,727
Amortisation on capital grants	(8,548)	(13,115)
Cost of stock recognised as an expense	31,322	23,974
Rentals payable under operating leases		
- plant and machinery	74,585	73,447
- other operating leases	96,910	111,188
Net rents receivable from property	<u>(3,779)</u>	<u>(4,228)</u>

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

9. Tax charge on profit on ordinary activities

	2016 £'000	Restated* 2015 £'000
Current taxation		
- Group relief payable	12,113	12,520
- Adjustment in respect of prior years	1,716	2,905
Total current taxation	13,829	15,425
Deferred taxation		
- Origination and reversal of timing differences	(571)	(2,863)
- Effect of decrease in tax rate on opening deferred tax balance	958	-
- Adjustment in respect of prior years	(2,660)	(2,860)
	(2,273)	(5,723)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	-	(3,500)
Total deferred taxation	(2,273)	(9,223)
Total tax charge on profit on ordinary activities	11,556	6,202

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 20% (2015: 21%). 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 standard rate of corporation tax for the reasons set out in the following reconciliation:

	2016 £'000	Restated* 2015 £'000
Profit before tax on ordinary activities	56,786	27,625
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom (20%) (2015: 21%)	11,357	5,801
Factors affecting charge		
- Expenses not deductible for tax purposes	129	38
- Prior year adjustments	(945)	45
- Effect of decrease in tax rate on opening deferred tax balance	958	-
- Effect of decrease in tax rate on origination and reversal of timing differences	57	318
Total tax charge on profit on ordinary activities (20.4%) (2015: 22.5%)	11,556	6,202

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

* Details of the restatement are disclosed in note 25.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

10. Intangible fixed assets

	Pension asset £'000
Cost	
At 1 April 2015	13,700
At 31 March 2016	13,700
Amortisation	
At 1 April 2015	(10,450)
Charge	(3,250)
At 31 March 2016	(13,700)
Net book value	
At 31 March 2016	-
At 1 April 2015	3,250

First Greater Western Limited set up an intangible pension asset to the value of £13.7m. This was equivalent to the value of the deficit under FRS 17 on commencement of the direct award franchise agreement, in order to offset the liability arising prior to the franchise term. This asset was capitalised and is being written off on a straight-line basis over the franchise term of 23 months. The intangible pension asset relates wholly to the direct award franchise terminating September 2015.

11. Tangible fixed assets

	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Total £'000
Cost			
At 1 April 2015	269,385	81,206	350,591
Additions	44,467	20,486	64,953
Intercompany transfers	-	3,600	3,600
Disposals	(172,270)	-	(172,270)
At 31 March 2016	141,582	105,292	246,874
Accumulated depreciation			
At 1 April 2015	233,006	65,053	298,059
Charge for year	48,363	5,820	54,183
Disposals	(172,270)	-	(172,270)
At 31 March 2016	109,099	70,873	179,972
Net book value			
At 31 March 2016	32,483	34,419	66,902
At 31 March 2015	36,379	16,153	52,532

Included in Other plant and equipment is £2.2m (2015: £3.3m) of construction in progress assets, which are not depreciated until they are brought into use.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

12. Non-current assets

	2016 £'000	2015 £'000
Long term receivables	7,681	-

Long term receivables relate to receivables due from third parties in relation to planned restructuring, this receivable is offset by a provision greater than one year, see note 18. Further explanation is also provided in note 23 Contingent liabilities.

13. Stocks

	2016 £'000	2015 £'000
Spare parts and consumables	15,273	15,251

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

14. Debtors

	Note	2016 £'000	2015 £'000
Amounts falling due within one year:			
Trade debtors		39,605	46,967
Provision on trade debtors		(117)	(125)
Amounts owed by group undertakings		2,070	1,281
VAT		12,647	18,431
Other debtors		2,073	2,290
Prepayments and accrued income		25,753	14,732
Deferred tax		9,191	6,918
		<u>91,222</u>	<u>90,494</u>

			£'000
Deferred tax asset			
At 1 April 2015			6,918
Credit to the profit and loss account	9		<u>2,273</u>
At 31 March 2016	14		<u>9,191</u>

The deferred tax asset consists of the following amounts:

	2016 £'000	2015 £'000
Capital allowances in excess of depreciation	4,240	3,935
Other timing differences	4,951	2,983
Deferred tax asset	<u>9,191</u>	<u>6,918</u>

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

15. Cash at bank and in hand

	2016 £'000	2015 £'000
Bank deposits	202,889	171,138

Cash and cash equivalents include ring-fenced cash of £177.3m (2015: £148.9m). Under the terms of the franchise agreement, the company can only distribute cash either up to the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratios at the balance sheet date.

16. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	56,853	51,784
Amounts owed to group undertakings	10,182	20,463
Group tax relief	5,000	9,380
Other tax and social security	6,158	11,611
Other creditors	26,234	25,228
Accruals and deferred income	235,930	195,694
	340,357	314,160

Amounts owed to group undertakings in the 2015 accounts included a £8.9m loan from FirstGroup plc, this was fully repaid during the year to 31 March 2016. This loan was repayable over seven years and was taken out to fund the high-speed train rolling stock refurbishment programme. The interest rate on the loan is fixed at 7%.

17. Provisions for liabilities and charges: amounts falling due within one year

	Legal & Other £'000	Total £'000
At 1 April 2015	-	-
Legal and other	7,562	7,562
At 31 March 2016	7,562	7,562

Provisions for liabilities and charges falling due with one year relate to an ongoing legal case expected to be settled during 2016-17 and rolling stock dilapidations due within one year.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

18. Provisions for liabilities and charges: amounts falling due after more than one year

	Lease costs £'000	Total £'000
At 1 April 2015	8,105	8,105
Charged to the profit and loss account	10,854	10,854
At 31 March 2016	<u>18,959</u>	<u>18,959</u>

Provisions for liabilities and charges during the year related to a £8.6m provision charged to the profit and loss account during the year for planned restructuring, also see note 12 non-current assets and note 23 Contingent liabilities, and a £2.2m provision charged to the profit and loss account for leasing arrangement arising during the franchise. Both the above provisions are expected to be fully utilised by 31 March 2019.

19. Called up share capital

	2016 £	2015 £
Authorised		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>

20. Dividend

Dividend distribution to the company shareholder First Rail Holdings Limited is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company shareholders. During the year a final dividend of £19m (2015: £30m) was paid to First Rail Holdings Limited, the company's immediate controlling entity. An interim dividend of £20m (2015: £20m) was paid during the year, again to First Rail Holdings Limited.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

21. Commitments

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

	2016 £'000	2015 £'000
Contracted for but not provided	66,493	60,697

Capital commitments primarily relate to the exam schedule on our train vehicles. Further capital commitments have been made as part of our new franchise agreement with the DfT.

Operating leases

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods are as follows:

	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Not later than one year	2,047	166,551	1,041	145,036
Between one and five years	3,084	770,718	1,868	690,053
	<u>5,131</u>	<u>937,269</u>	<u>2,909</u>	<u>835,089</u>

22. Pension liability

Railways Pension Scheme – First Greater Western Section

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the profit and loss in the period ended 31 March 2016 was £0.4m (2015: £0.4m).

Defined benefit schemes

As a consequence of adopting FRS102 Section 28 restatements have been made to prior year pension numbers. These restatements are detailed in this note and in note 25.

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 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 in respect of the costs used in these financial statements. The actuarial valuation was updated for 31 March 2016; at this date the market value of the scheme's assets totalled £736m. The actuarial value of these assets was sufficient to cover 75% (2015: 66%) of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 10.64% (2015: 10.64%) for employees and 15.96% (2015: 15.96%) for the employer.

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 will be (RPI/CPI) 3.2%/2.4% per annum. The valuation was made using the projected unit method.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

22. Pension liability (continued)

During the year, some changes to benefits were agreed to take account of the fact that the RPS would no longer be contracted-out from April 2016. Pensionable pay growth for past service benefits is capped at RPI plus 0.25%. The normal pension age for future service has also increased to 62 for members who are not Protected Persons. The pensionable pay cap has resulted in a past service gain of £14.1m. Given the franchise nature of these operations, the balance sheet franchise adjustment has been decreased by an offsetting £14.1m, recognising that not all of this benefit will be available to the company, and that the element that will be available will be recognised in full via lower cash obligations during the remainder of the franchise.

In calculating First Greater Western's pension obligation in respect of the RPS, the company's total pension deficit in accordance with FRS102 Section 28 has been calculated. This deficit is reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the company is not required to fund. The franchise adjustment, which has been calculated by FirstGroup's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flow of the Group's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to First Greater Western and recognised in the accounts.

The company has re-estimated the calculation of the franchise adjustment under FRS102 Section 28 to better reflect the commercial terms of our shorter franchise. This change in accounting estimate has been triggered by the new Direct Award and has been applied prospectively from 1 April 2015. As a result of this change in accounting estimate the operating profit charge for the year is £15.8m lower at £22.0m than it would otherwise had been. The change in the basis of estimate has no effect on the cash contributions made to the pension scheme in the year.

Under the terms of the Railways Pension Scheme (RPS) the employer (60%) and the employees (40%) share any fund deficit. The current service pension cost relating to this scheme in the year was £22.0m.

Financial assumptions

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

	2016	2015
Rate of increase in salaries	3.10%	3.45%
Rate of increase of pensions in payment	1.75%	1.85%
Rate of increase of pensions in deferment	1.75%	1.85%
Discount rate	3.70%	3.50%
Inflation assumption - RPI	2.85%	2.95%
Inflation assumption - CPI	1.75%	1.85%

Mortality assumptions

The assumptions made for current mortality reflect broadly the current experience. This takes into account size of pension and geographic location. An allowance is made for future improvements, based on information currently available on mortality trends.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

22. Pension liability (continued)

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

	2016 £'000	2015 £'000
Equities	187,139	-
Bonds	208,554	31,341
Property	69,543	-
Cash Plus	197,074	502,779
Private Equity	-	84,426
Other	73,558	35,731
	<u>735,868</u>	<u>654,277</u>

The section is invested in Railpen pooled funds. The main investment is in the Growth Pooled Fund, the purpose of which is to invest in a wide range of return-seeking assets across different financial markets and economies in order to deliver high long term real returns (RPI + 4% pa) over a rolling 5 to 10 year period.

Amounts recognised in income in respect of the defined benefit scheme are as follows:

	2016 £'000	Restated* 2015 £'000
Current service costs	37,830	26,871
Past service gain	14,100	-
Impact of franchise adjustment on operating cost	(29,930)	-
	<u>22,000</u>	<u>26,871</u>
Interest cost	7,305	5,708
Interest on franchise adjustment	(7,305)	(5,133)
	<u>-</u>	<u>575</u>
	<u>22,000</u>	<u>27,446</u>

Actuarial gains and losses have been reported in the statement of comprehensive income. The actuarial gain on scheme assets were £48.9m (2015: gain £27.4m).

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

22. Pension liability (continued)

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 £'000	2015 £'000
Fair value of schemes' assets	735,868	654,277
Present value of defined benefit obligations	(980,000)	(990,839)
Deficit in the scheme	(244,132)	(336,562)
Rail franchise adjustment (60%)	146,463	201,937
Adjustment from employee share of RPS deficits (40%)	97,669	134,625
Liability recognised in balance sheet	-	-
Related deferred tax (liability) / asset	-	-
Net pension liability	-	-

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

	2016 £'000	2015 £'000
At start of the year	990,839	782,605
Current service cost	37,830	26,871
Past service gain	(14,100)	-
Brass contribution adjustment	(400)	(412)
Interest cost	21,205	20,922
Employee share of change in DBO (not attributable to franchise adjustment)	29,257	92,641
Experience (gain) / loss on DBO	(5,248)	17,600
Loss on change of assumptions (demographic)	-	7,600
(Gain) / loss on change of assumptions (financial)	(59,244)	66,382
Benefit payments	(20,139)	(23,370)
At end of the year	980,000	990,839

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

	2016 £'000	Restated* 2015 £'000
At start of the year	654,277	572,016
Interest income on assets	13,900	15,214
Company contributions	22,400	20,339
Brass contributions	(400)	(412)
Employee contributions	17,224	14,933
Employee share of return on assets	25,129	28,157
Gain on assets	22,615	27,400
Benefits paid from schemes	(19,277)	(23,370)
At end of the year	735,868	654,277

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

22. Pension liability (continued)

Movements in the franchise adjustment were as follows:

	2016 £'000	2015 £'000
At start of the year	(336,562)	(194,416)
Interest on franchise adjustment	(7,305)	(5,133)
Employee share of change in DBO	(13,680)	(56,858)
Actuarial gain on franchise adjustment	113,415	(80,155)
At end of the year	<u>(244,132)</u>	<u>(336,562)</u>

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 respective franchise had an indefinite duration, the impact on the financial statements would have been as follows:

	2016 £'000	Restated* 2015 £'000
Balance sheet		
Pension deficit	(146,463)	(201,937)
Intangible assets	-	(3,250)
Deferred taxation	29,293	40,387
Impact on net assets	<u>(117,170)</u>	<u>(164,800)</u>
Income statement		
Unwinding of discount on franchise adjustment	(7,605)	(5,133)
Intangible asset amortisation	3,250	7,150
Deferred taxation	(1,521)	(3,392)
Impact on profit for the period from continuing operations	<u>(5,876)</u>	<u>(1,375)</u>
Statement of recognised income and expense		
Actuarial losses/(gains) on franchise adjustment	113,415	(80,155)
Deferred tax on actuarial (gains)/losses	(22,683)	18,396
Impact on recognised income and expense	<u>90,732</u>	<u>(61,759)</u>

* Details of the restatement are disclosed in note 25.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2016

23. Contingent liabilities

During the year a provision greater than one year has been established relating to planned restructuring at specific First Greater Western's engineering depots arising from the substantial fleet upgrade. The new Intercity Express trains will not be maintained by the company. The value of this provision has been calculated based on the number of colleagues involved and the potential obligation this creates, reference note 18. This provision is partly offset by a long term receivable which forms part of our franchise agreement, reference note 12. The company expects future restructuring actions in relation to its engineering depots as a result of further changes to its fleet composition. These changes need to be agreed with the DfT. The company's exposure is limited because it is anticipated that these costs will be offset by a future receivable.

24. Ultimate parent company

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 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.

25. Explanation of transition to FRS102

This is the first year that the company has presented its financial statements under Financial Reporting Standard 102 (FRS102) 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 FRS102 was therefore 1 April 2014. As a consequence of adopting FRS102, 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. FRS102 Section 28 requires a net interest cost to be disclosed. This results in a reduction to the net interest previously disclosed of £10,261k resulting in a deferred tax impact of £2,052k. 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 FRS102 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	29,632
Reduction to net interest on pension scheme	(10,261)
Deferred tax on reduction to net interest on pension scheme	2,052
	<hr/>
Profit for year ended 31 March 2015 under FRS102	<u>21,423</u>