Company Registration No. 05113733

First Greater Western Limited

Report and Financial Statements

For the year ended 31 March 2020

First Greater Western Limited
Report and financial statements 2020

Contents

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, branded as Great Western Railway.

Market review and trends

The year ended 31 March 2020 was the final year of operation of First Greater Western Limited's (FGW's) second consecutive direct award franchise (DA2). This was a 3.5 year franchise which commenced on 20 September 2015 with a possible 1 year extension at the sole discretion of the Secretary of State (SoS). The option of the additional year was called by the SoS in 2018 making the final franchise end date 31 March 2020. On 29 March 2020, FGW signed a further direct award agreement (DA3) with the Department for Transport (DfT) to continue operating the franchise until the end of March 2023 again with a possible 1 year extension at the sole discretion of the SoS. The DA3 franchise was signed concurrently with an Emergency Measures Agreement (EMA) which acts as a variation to some requirements of the contract which initially ran for 7 Rail Periods in order to mitigate the risk of the Coronavirus Pandemic. On 1 September 2020, this EMA was extended to 26 June 2021.

Our new environmentally friendly fleets of commuter Electrostar trains and bi-mode InterCity Express Trains (IETs) have delivered more seats and increased levels of punctuality. The new trains, in turn, allowed us to redeploy some of the rolling stock previously used in London and the Thames Valley to enhance capacity on routes in the South West. The largest timetable change since the 1970s was successfully introduced in December 2019, taking advantage of the new trains to offer faster journey times and more frequent services to key locations. All of these changes led to the highest levels of customer satisfaction FGW has recorded as well as a significant improvement in its independent National Rail Passenger Survey (NRPS) score in the period. In September 2019, FGW took over the operational aspects of Heathrow Express and is working closely with Heathrow Airport on further improvements to the service.

In the near term, Emergency Measures Agreements (EMAs) have been put in place across the industry by the UK Government as discussed below. The accounts for the year ended 31 March 2020 have been prepared on the basis that there will be a continuation of EMA or similar for FGW for the duration of the franchise period. If there is no continuation of the EMA or similar agreement, then FGW will revert back to the DA3 franchise agreement, which includes a Forecast Revenue Mechanism (FRM), which also makes provision for a revenue rebasing exercise for FGW if required.

FGW continued its profitable performance and its strong progress on the fleet and infrastructure projects in conjunction with industry partners. The company made an operating profit of £52.7m (2019: £53.9m) on turnover of £1,439.5m (2019: £1,257.3m). Passenger receipts grew by 2.7% (2019: 3.7%) over the year (2020: £1,022.7m versus 2019: £995.7m), like for like passenger revenue growth accelerated until March, benefitting in part from the additional capacity generated by greater utilisation of the Electrostar and IETs that have been introduced into service over recent years. However, results were seriously affected by Coronavirus, as passenger volumes decreased very rapidly during the final weeks of the financial year due to the actions taken by governments to control the outbreak.

Coronavirus Pandemic response

In line with the wider UK rail industry, passenger volumes in our businesses reduced substantially from the second half of March 2020 as government advice and regulations changed, with revenue c.95% lower than the same period last year. Following consultation with the DfT, the industry began operating a reduced timetable from 23 March. Services have been gradually restored beginning with the timetable change on 18 May 2020, although demand remains at unprecedentedly low levels.

The UK Government acted swiftly to sustain the country's rail networks during the pandemic, ensuring services could continue to be operated for essential workers to travel by rail to perform their vital roles. Prior to the end of the year, the DfT confirmed that an EMA covering the remainder of the Direct Award 2 (DA2) franchise would be put in place and would be effective from 1 March through 31 March. This agreement was formally signed on 22 June 2020. On 29 March, FGW entered into an EMA with the UK Government which covered the DA3 franchise and was effective from

First Greater Western Limited
Strategic report (continued)

Coronavirus Pandemic response (continued)

1 April through 20 September 2020. On 1 September 2020, the DfT extended this EMA until at least 26 June 2021 under the same terms as the original EMA for DA3. The EMA agreements provide continuity and certainty to FGW.

On 21 September the UK introduced Emergency Recovery Measures Agreements (ERMAs) for other rail operators whose EMAs expired on 20 September, and unlike FGW were not extended. The ERMAs feature more demanding performance targets and lower franchise fees, and run for up to 18 months. FGW does not operate under an ERMA, as the EMA has been extended on the same terms as entered into until 26th June 2021.

While FGW operates under its EMA the government will continue to take the revenue, cost and contingent capital risk and FGW will receive a fixed management fee along with the possibility of receiving a further performance based fee. As FGW continues under an EMA, the return to operation under DA3 following the expiry of the EMA on 26 June 2021 remains possible.

FGW is also using our unique position as part of the essential fabric of the communities in which we operate to deliver support and assistance during this challenging time. We are responsible partners with our customers and communities, and we work with community organisations across the network. In particular, we were pleased the Rail to Refuge scheme with Women's Aid, which offers free rail travel to those fleeing domestic violence, went nationwide during the lockdown period following a successful trial in FGW.

Current trading and the future

FGW has generated good overall returns despite challenging recent industry conditions. The UK's rail franchising system is currently undergoing a major review of the most appropriate commercial model to deliver services in future. We are looking forward to the final outcome of the Williams Review in order to understand the balance of risks and rewards on offer for future UK rail opportunities, although we are aware of recent announcements. Notwithstanding these issues, we are focused on working with our industry partners to deliver better customer experiences, which will in turn result in passengers returning to the railway.

We continue to work closely with Network Rail, the DfT and all industry partners to deliver infrastructure upgrade projects while minimising disruption for passengers. Completion of these projects allows additional train capacity or services to be introduced, generating patronage growth that in turn drives passenger receipts.

We have continued to invest in passenger convenience including initiatives to promote contactless payment, online and mobile ticketing and travel information improvements and other technology to streamline and enhance our operations and responsiveness to customers and other stakeholders. Meanwhile, our commitment to the safety of our passengers, our employees and all third parties interacting with our business remains unwavering. Our approach to safety is focussed on innovative technology, external assurance and our behavioural change programme, Be Safe, all of which have made further progress towards ensuring we are always operating to the highest standards.

At stations we are delivering additional car parking spaces, as well as new and upgraded customer information screens, and improved waiting, retail and interchange facilities.

Responsible partnerships with our customers and communities

FGW continues to build on the success of the Customer and Communities improvement fund which works with community organisations across the network to give grants to projects.

Electrification across parts of our route have contributed to a reduction in greenhouse gas emissions per passenger km in the past 4 years.

FGW achieved Investors in People Gold status re-accreditation following a full assessment, which reflects our continued investment in colleagues to provide great customer service.

In September, FGW commenced the running of all operational aspects of Heathrow Express, and over the next year will include the introduction of a dedicated fleet of trains. In addition, FGW continues to work with TfL and industry partners to prepare for the launch of the Elizabeth Line.

During the year, FGW implemented "Delay Repay 15" giving passengers improved compensation when services are disrupted.

First Greater Western Limited
Strategic report (continued)

Our priorities and outlook

We remain focused on working with our industry partners to deliver our plans for more capacity and better customer experiences, which in turn will drive patronage growth over time. We will also be working with the DfT to support the recovery from the impacts of the Coronavirus Pandemic.

FGW continues to demonstrate significant strengths across the business, both operationally and from a fleet and infrastructure perspective. It is through the investment in infrastructure, stations, rolling stock and with new timetables that we will deliver capacity improvements, which will transform the customer experience. Our work with Network Rail remains critical to delivery of this programme, and the close working relationship we have built as part of our local alliance agreement will continue to be a valuable tool in responding to challenges in the future.

Key Performance Indicators

Train operating performance increased during 2019/2020 compared to 2018/2019 with our public performance measure moving annual average score standing at 88.5% (2019: 84.6%). This improvement was due to a number of factors, including reliability improvements of our new fleet and Network Rail infrastructure, improved traincrew resilience and targeted performance improvements across Service Group hotspots.

In the latest independent Transport Focus National Rail Passenger Survey, FGW saw a significant year-on-year increase to 86% (2019: 78%). This confirms how important all of our preparations and customer support activities were in making it a success. Availability of staff on station and train has achieved highest ever scores. Reflective of the effort put in across the business to support customers following the introduction of the December 19 timetable, FGW held its position despite a slight downward movement at a National Level. Amidst the positivity, there has been a downward shift in satisfaction with public transport and other train connections. These results serve as reminder of the position prior to the Coronavirus Pandemic and will help in our planning for the future as we recover from its impacts. Customer service and the importance of supporting customers will remain paramount.

FGW's average headcount in the year increased to 6,229 (2019: 5,949), an increase of 4.7%. FGW has seen an increase in Traincrew and Customer Service colleagues required to deliver the December 2019 timetable, partly offset by a small decrease in engineering heads due to the restructuring of fleet depots.

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 impact the safety and security of FGW's employees, customers and 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.

FGW's principal risks are set out below; these risks have been assessed considering their potential impact (both financial and reputational), the likelihood of occurrence and any change to this compared to the prior year and the residual risk after the implementation of controls.

Coronavirus Pandemic

Government and societal responses to the pandemic have had a significant impact on all of our markets and will continue to do so for some time to come. Travel volumes have reduced very substantially and while guidance to limit travel and socially distance remains in place, this will have a significant impact on our service capacity and financial performance. At the same time, the government recognises the need to maintain our services and is enabling this through contractual support, through the EMA. There are uncertainties as to how rapidly demand will recover, and the duration of social distancing rules. It is difficult to assess what effect the continued impact of the Coronavirus Pandemic might have on

Coronavirus Pandemic (continued)

the wider economy and the areas in which we operate. However, this impact is mitigated by the EMA arrangements that have been confirmed through to 26 June 2021. Post 26 June 2021, the government has the right to extend or provide similar arrangements. If the franchise returns to the underlying DA3 franchise agreement terms, there are significant protections, particularly in the form of support in the event of reduced passenger revenue, afforded by the underlying agreement.

Coronavirus has impacted and will continue to impact some of FGW's key risk areas, notably

- FGW's first priority from the start of the coronavirus outbreak was the health and safety of our passengers, employees and the communities in which we operate. FGW, in conjunction with FirstGroup, took rapid action to apply the advice of governments and health authorities, including implementing additional cleaning regimes and the provision of advice to passengers. At the same time, steps were taken to ensure the we could continue to provide essential transport services so that key workers and people who needed to travel could still do so safely;

- We worked closely with our suppliers to ensure we had the appropriate equipment in place, in line with relevant public health authority guidance for our operations. We followed, and in some cases developed, best practice in areas such as the cleaning and decontamination of trains, stations, depots and offices;

- The government put in place comprehensive emergency measures, initially for six months, in order to maintain continuity of critical rail services. The signing of the EMA has led to additional regulatory reporting requirements and communication of the requirements to those within the business who are responsible for ensuring compliance;

- Our information technology professionals have been required to provide remote access to enable a significant proportion of our office-based staff to work from home; and

Information technology (IT)

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 or increased costs, fines, penalties or additional insurance requirements. Prolonged failure of our sales website could also adversely affect revenues. Continued successful delivery and implementation of our IT transformation plan is required to improve yield management and drive future growth. Failure to properly manage the implementation of new IT systems may result in increased costs and/or lost revenue.

We focus on asset management and further enhanced our IT security processes and procedures to mitigate this risk.

Data security (including cyber security and GDPR)

All business sectors are targeted by increasingly sophisticated cyber security attacks. Across our business we are seeing increased use of mobile and internet sales channels which gather large amounts of data and therefore the risk of unauthorised access to, or loss of, data in respect of employees or our customers is growing. A failure to comply with the General Data Protection Regulation (GDPR), which came into force May 2018, could result in significant penalties and could have adverse impact on consumer confidence in our business.

We have threat detection systems across our business but continue to remain vigilant to security improvements when identified.

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 FGW. These laws and regulations are constantly subject

Political and regulatory issues (continued)

to change, the impact of which could include increased compliance costs and/or a reduction in operational flexibility and efficiency.

To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup plc actively engages with the relevant bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes.

Competition

FGW's main competitors include private car and other public and private transport operators across our network. Emerging technologies such as Uber, ride sharing apps and price comparison websites make access to alternative solutions easier. Increased competition can result in lost business, revenue and reduced profitability.

To mitigate this risk the company continues to focus on service quality, performance and innovation 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. We have a dedicated Customer Experience Team focused on improving our service to customers and improving access to our services.

Customer service

FGW'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.

Pension scheme funding

FGW primarily participates in a defined benefits pension scheme. Future cash contribution requirements may increase or decrease based on pension scheme investment performance, rates of interest and inflation and estimated life expectancy as well as changes in the underlying membership of the scheme. Other factors, such as changes to the relevant regulatory environments, can affect the pace of cash funding requirements.

At the previous year-end, we noted that The Pensions Regulator (TPR) had been in discussion with the Railways Pension Scheme (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions have continued during 2019/20 and are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme. We continue to await the results of these discussions. The 2019 scheme valuation has commenced but any outcome will be held pending discussions stated above.

TPR and the Department for Transport (DfT) had requested that the Rail Delivery Group (RDG) coordinate the Train Operators' involvement in an industry wide review of scheme funding. The RDG, comprising participants from each of the large owning groups, has been seeking to develop a framework which meets TPR, DfT, RPS and RDG objectives. There has been continuing engagement between the key parties during the year, and efforts to develop a framework to take forward to a formal consultation are ongoing.

Management continues to believe that the protections contained within current franchise agreements will allow the Scheme to continue with its current funding strategy in the short-term and therefore pension scheme assets and liabilities do not appear on the FGW balance sheet. Nevertheless, TPR believes that a higher level of funding is required in the longer term, and the Group has been engaged with the industry-wide project to consider the funding of the Scheme. See note 23.

Management continues to believe that an approach that meets TPRs key objectives whilst maintaining stability and fairness, and retaining protection against unacceptable risk, for both operators and scheme members is achievable.

Under UK Rail franchise agreements FGW is not responsible for any residual deficit at the end of a franchise. Therefore, there is only short-term cash flow risk within our franchise.

Compliance, litigation and claims, health and safety

FGW's operations are subject to a wide range of legislation and regulation. Failure to comply can lead to litigation, claims, damages, fines and penalties. The company has three main risks; third party injury and other claims arising

First Greater Western Limited
Strategic report (continued)

Compliance, litigation and claims, health and safety (continued)

from general operations, employee injuries and property damage. A higher volume of litigation and claims can lead to increased costs and reputational impact.

We have a very strong focus on safety, and it is one of our five values. FGW self-insures third party and employee injury claims up to a certain level commensurate with the historical risk profile. We purchase insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers. Non-insured claims are managed by FirstGroup plc's dedicated in-house legal teams with external assistance as appropriate.

Labour costs, employee relations, recruitment and retention

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. Industrial action could adversely impact customer service and have a financial impact on the company's operations.

To mitigate this risk, the company seeks to structure its recruitment and retention policies, training schemes and working practices. 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. A new Employee Director was appointed during the year.

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.

Disruption to infrastructure/operations

Across our network, we are experiencing greater and more frequent disruption due to adverse weather conditions which impacts 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.

The threat from terrorism is enduring and continues to exist. Public transport continues to be regarded as an attractive and viable target. Across our business, we take all reasonable steps to help guard against such activity on the services we operate. An attack, or threat of attack, could lead to reduced public confidence in public transportation, and/or our security and safety record. This could reduce demand for our services, increase costs and security requirements and cause operational disruption.

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.

Environment and climate change

Environmental and climate change issues are key issues facing the transport sector and have the potential to carry significant risks. FGW are well positioned to mitigate against these risks through our environmental and sustainability strategy. FGW continues to build on the international standards for environmental and energy management by maintaining certification to ISO 14001:2015 and ISO 50001:2011. The introduction of the bi-mode Intercity Express Trains and the 387 Electrostar Trains has brought a reduction in carbon emissions. Contracts and projects with suppliers with significant environmental risk are now evaluated by our Sustainability team. Through the installation of Building Management Systems, FGW have been able to drive down electricity consumption across our stations.

Economic conditions including Brexit implications

Changing economic conditions affect our business in different ways. A less positive economic outlook affects the number of train journeys taken by passengers in the UK. Changes in economic activity may impact upon the passenger numbers and hence our operations. A disruptive exit from the EU could have a negative impact on our business in terms of reduced demand and opportunities for growth. Improving economic conditions may result in a tightening of labour markets, resulting in employee shortages, pressure to increase pay, or affect the availability of public funding for transport services. The same factors could also affect our key suppliers.

To mitigate these risks, we continue to focus on building revenue streams and controlling costs to ensure we remain competitive.

Companies Act 2006 Section 172 Statement

The directors have a duty to promote the success of the company for the benefit of its members as a whole. The Board understands the need to act fairly between the members of the company when assessing the consequences of a decision over the longer term. The Board believes that its key stakeholders are:

- Customers
- Investors (First Rail Holdings and ultimately FirstGroup plc)
- Government and political stakeholders
- Our People
- Communities
- Strategic partners and suppliers

The Board believe that strong engagement, collaboration and dialogue are critical to the effectiveness of our long-term relationships with key stakeholders. The FGW Board has adopted the FirstGroup processes, policies and governance structures that are relevant to our business and contributes to their development and refinement. FGW also has an independently chaired Advisory Board that consists of some key stakeholders and meets regularly over the year.

Engaging ethically

In line with our values and the expectations of our customers and partners, we are committed to conducting our relationships with our stakeholders with high ethical and moral standards in all our interactions. Our values and ethical commitment shape not only what we do, but also how we do it.

FGW has adopted the FirstGroup Code of Ethics which applies to everybody working for, or on behalf of, FGW. The code sets out the standards that our customers and stakeholders expect of us, and which we expect of each other. It is supported by detailed policies and procedures which are implemented and managed by the senior management team, including our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and our Anti-Bribery Policy.

We are committed to recognising human rights. We are committed to the prevention of modern slavery and human trafficking in all its forms, which extends to all business dealings and transactions in which we are involved. We have a zero-tolerance approach to any violations within our company or by business partners.

We have a zero-tolerance approach to bribery, and never offer or accept any form of payment or incentive intended to improperly influence a business decision. Equally, we support free and open competition, gaining our competitive advantage by providing the highest level of service, not through unethical or illegal business practices.

We have internal control systems and procedures in place to counter bribery and corruption. Similarly, we respect and protect the privacy of our customers, employees and stakeholders, and are committed to conducting our business in accordance with all applicable data protection legislation, including the General Data Protection Regulation and the UK Data Protection Act. We have an externally managed whistleblowing service for colleagues available with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. All reported issues or concerns to the hotline are taken seriously and investigated as appropriate, ensuring that confidentiality is respected at all times.

First Greater Western Limited
Strategic report (continued)

Companies Act 2006 Section 172 Statement (continued)

The primary methods in which FGW engages with its stakeholders are outlined below:

Customers

- Regular customer and passenger satisfaction surveys to identify what we do well and where we can improve
- Robust customer feedback processes through online and traditional channels
- Customer panels and events
- Ongoing dialogue with customer representative groups

Investors

- Alignment of strategy and the governance structure to deliver the strategy
- Agreement on budgets and forecasts and the reporting of actual performance

Government and political stakeholders

- Engagement with industry forums
- Direct engagement with policymakers
- Strong links with national and regional governments
- Surveys of political stakeholders

Our People

- Regular 'Your Voice' employee engagement surveys
- Dialogue with employee representatives, including with our Employee Director and the trade unions
- Inductions, onboarding sessions and employee handbooks
- Multiple internal communications channels, including our intranet, briefings, newsletters and our employee mobile apps
- Individual performance reviews and development discussions or Time with Your Manager meetings

Communities

- Targeted engagement plans and activities
- Regular dialogue, events and direct engagement activities
- Stakeholder reports and surveys
- Community investment, charitable engagement and employee volunteering

Strategic partners and suppliers

- Alliance with Network Rail's Western Route
- Regular dialogue with key partners
- Collaboration in cross-industry forums
- Certified systems for collaborative supplier relationships
- Clear ethical and sustainability standards

Below we describe the effect of having regard to Section 172 on First Greater Western Limited's decisions and strategies during the financial year:

- FGW worked closely with Customer Groups, Network Rail, the Department for Transport and FirstGroup to successfully deliver the timetable expansion on 15 December 2019 which provided significant improvements in capacity, faster journey times and more regular services for our passengers and the communities in which they live. The changes were informed by results of passenger surveys and unlocked the benefits of eletrification, recently upgraded infrastructure and new trains. Although the improvements made were

Companies Act 2006 Section 172 Statement (continued)

established under the Direct Award 2 (DA2) franchise, the benefits will continue into the future to create a lasting improvement.

- During March 2020 as the spread of Coronavirus was approaching its peak, FGW engaged with the DfT, union leaders, employee representatives and FirstGroup to establish a revised timetable which provided ongoing rail access to key workers to allow them to get to work. The revised timetable also allowed FGW to minimize ongoing exposure to the virus for FGW's on-train employees through a reduction of the onboard services being provided. In addition, new cleaning regimes were established in stations, on trains and in our offices to lower the risk of infection for both our passengers and our employees. FGW also procured additional IT equipment to enable office based staff to work from home to help mitigate the risk of the infection spreading within the office enviornments.

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

Duncan Rimmer
Director
6 October 2020
Milford House
1 Milford Street
Swindon
Wiltshire, SN1 1HL

First Greater Western Limited
Directors' report

The directors have the pleasure in submitting their annual report and the audited financial statements for the year ended 31 March 2020. A review of the business and the future developments are set out in the Strategic Report which can be found on pages 2 to 10.

Directors

The directors who held office throughout the year (except as noted) and to the date of this report are as follows:

Directors who held office throughout the year:

Clive Burrows	Matthew Golton
Mark Hopwood	Hugh Clancy
Kevin Gardner	Stephen Montgomery

Duncan Rimmer was appointed as a director on 17 June 2019, Sally Bennett was appointed as a director on 2 October 2019 and Dr Benjamin Caswell resigned as a director on 17 June 2019. Following the end of the financial year, Kevin Gardner resigned as a director on 29 May 2020 and Michael Nelson was appointed as a director on 1 June 2020.

Corporate governance arrangements

First Greater Western Limited has chosen not to apply any corporate governance code for the financial year. FGW is not required to adopt a corporate governance code. However, the FGW directors have agreed to act within the governance framework established by its ultimate parent company FirstGroup plc as the FirstGroup governance framework is fit for purpose in helping FGW to achieve its business goals. FirstGroup's governance framework and compliance with the UK Corporate Governance Code are described in its Annual Report and Accounts for the year ended 31 March 2020.

From the perspective of the FGW Board, a key aspect of FirstGroup's governance is that the FirstGroup Board are responsible for the strategic direction, purpose, values, culture, corporate governance, capital expenditure and financing of the Group as these matters are reserved for them. The FirstGroup Board is supported by a number of committees which are generally comprised of Executive and Non-Executive directors. The committees and their areas of responsibility are:

- Audit Committee – responsible for financial reporting, internal controls, internal and external audit, risk management and cyber security
- Board Safety Committee – responsible for safety policies and standards oversight; workforce wellbeing
- Nominations Committee – responsible for FirstGroup Board appointments, succession planning, FirstGroup Board member skills and experience; diversity
- Remuneration Committee – responsible for remuneration policy, Executive directors and senior management remuneration, workforce remuneration policies and practices, rewards and incentives aligned with culture

The FGW Board will, either directly or through First Rail Holdings, provide papers to the Board or Board Committees, as appropriate, for consideration and approval. Through the authority delegated from FirstGroup, FGW is able to operate our business.

The Board of FGW is comprised of 8 directors and their role is to:

- Execute FGWs strategic direction
- Ensure the values and culture aligned with that of the Group
- Establish a framework of prudent and effective controls to enable FGW's risks to be assessed and managed
- Engage effectively with shareholders and stakeholders
- Ensure workforce policies and practices are implemented which are consistent with the values and support FGW's long-term sustainable success
- Ensure there are mechanisms in place that allow the workforce to raise any matters of concern
- Provide effective governance and stewardship of FGW's assets
- Ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations

Corporate governance arrangements (continued)

The Board's composition includes an Employee Director whose main responsibility is to bring the voice of the workforce to the boardroom.

The Board of FGW meets on 10 occasions per year and on an ad hoc basis, as dictated by business needs. Papers are circulated in advance and the Company Secretary or the Executive Sponsor are available to brief those directors who are not available to attend meetings in person due to prior unavoidable commitments.

The Board of FGW has established the following Committees to help it discharge its responsibilities more efficiently:

- FGW Monthly Executive Meetings
- Executive Safety Group
- Strategic Portfolio Review Board
- Quarterly Business Reviews

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 vacancies. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

Going concern

The directors are required to state whether they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Background for going concern

FGW is a business that provides essential services to the communities it serves. Continuity of transport is proving essential to governments, local communities and many of our customers during the Coronavirus Pandemic. The transportation services that FGW provides are very likely to remain essential to these stakeholders as we either emerge from the Pandemic or adopt effective ways of living with Coronavirus. The funding received from government to sustain services through the EMA, and the commitment that this will remain in place until 26 June 2021 is testament to the importance of our offering to those we serve.

Government and stakeholders recognised the need to reduce services as passenger demand declined rapidly when lockdown orders were made. They also recognised that it was critical to provide funding to maintain essential services for key workers to get to their place of work, and to preserve the ability to restore services quickly when required. Since the nadir of service levels in March, increased service levels have been reintroduced in stages with additional government support.

The impact of the coronavirus on our business, and the support being provided by government will continue to evolve throughout the coming months. The continued impact of the Coronavirus Pandemic on the wider economy and the transport sector within the market in which FGW operates remains unclear, however, under the EMA the government takes all revenue and substantially all cost risk. Under the DA3 Franchise Agreement, FGW retains strong protection against any downside revenue risks through a 'Forecast Revenue Mechanism' (FRM) which alleviates 90% of any revenue shortfall. Any residual impact on company profitability would be addressed by mitigating actions to identify savings from within the c£1.5bn annual cost budget. While some of the costs are fixed and cannot be changed due to regulatory or contractual commitments, such as Fixed Track Access, and leasing charges, many other cost areas have

First Greater Western Limited
Directors' report (continued)

Going concern (continued)

elements of controllability and variability (e.g. costs relating to train miles and the provision of discretionary services) meaning management action can be taken to reduce them.

Going concern assessment

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the company's ability to continue as a going concern for the twelve months from the date of the financial statements.

The major assumptions and key areas of judgement incorporated in the modelling included:

- the likelihood of a coronavirus impact in the UK remaining in place for the foreseeable future;
- the possible continuation of the EMA beyond 26 June 2021;
- the potential impacts on financial and trading performance without the levels of government support currently being provided under the EMA for the period post 26 June 2021;
- the protection provided by the 'Forecast Revenue Mechanism' in the DA3 Franchise Agreement; and
- the timing of working capital flows.

These financial forecasts assume continued fiscal and contractual support broadly at the levels currently in place, with the business seeing a gradual but consistent return in passenger revenues, which it is anticipated will continue during the second half of the 2020/21 financial year.

The directors have taken into account that at the conclusion of the EMA period on 26 June 2021, or later if the EMA is further extended, FGW will operate services under the DA3 franchise with revenue risk shared with the DfT through the FRM. This franchise agreement also makes provision for a potential revenue rebasing exercise, if required. The FRM will apply if revenue varies from the targets set out in the bid assumptions. Payments or receipts occur when actual revenue is 1.5% higher or lower than the expected FRM revenue and 90% of the revenue difference will be paid out. This mechanism eliminates much of the revenue risk that the franchise faces and remaining risks to profitability would be addressed by focusing on reductions to costs which would be aligned to service levels proportionate to passenger demands. The existence of this mechanism and provision for a revenue rebasing exercise, means management believe that the company could operate the DA3 franchise as a going concern following the ending of the EMA. This conclusion is formed having considered the significant cash position at 31 March 2020, which is largely maintained over the period of the EMA to 26 June 2021. This means that the extent of losses required to use up the cash headroom or breach the financial covenants in the franchise in the post EMA period of the going concern period, being 12 months from the date of approval of the financial statements, would need to be at a level so significant that the possibility of this occurring is considered remote. Different scenarios of the forecast profitability for the post EMA period have been examined, including one that the directors consider a worst case scenario. Under this worst case scenario, mitigating actions can be taken that mean the franchise could remain at a level at which continued operation of the franchise would be viable.

Going concern statement

Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the company is exposed, the directors believe that the company has adequate resources to continue in operational existence for the twelve month period from the date on which the financial statements were approved.

Accordingly, the financial statements have been prepared on a going concern basis.

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. The company continues to have an acceptable level of liquidity as, in the rail industry, the vast majority of turnover transactions are paid for in advance. The company undertakes detailed regular cash re-forecasting processes and considers that the facilities it has access to provide sufficient liquidity to meet its obligations. This is demonstrated in cash and ring- fenced cash balances as set

Financial risk management objectives and policies (continued)

out in note 14. Certain risks, for example, fuel price, are generally 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 20.

During 2019/20 a final dividend relating to the previous financial year was paid to First Rail Holdings Limited of £20.0m (2019: £25.0m), the company's immediate controlling entity. An interim dividend was paid during the year of £20.0m (2019: £25.0m) to First Rail Holdings Limited, see note 20. FGW is planning to pay a final dividend of £19.0m in respect of the year ended 31 March 2020 which was the final year under the DA2 franchise. The payment of the dividend is subject to approval by the DfT under the terms of the EMA.

Under FRS 102 the company 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.

Events subsequent to the end of the year

The EMA for DA2 which covered FGW's operations for the month of March 2020 was signed on 22 June 2020. The EMA for DA3 was extended on 1 September 2020 until at least 26 June 2021. There were no changes to the terms of the original EMA for DA3.

Coronavirus continues to have an adverse impact on both the rail industry and the wider economy of the United Kingdom. Until there is a vaccine available it is likely that these impacts will continue. In the meantime, FGW continues to look at ways of safely mitigating the risks of coronavirus to our passengers, employees and our shareholders.

Future events

The directors are satisfied with the performance of the company for the year. Future events have been considered by the directors within the Strategic Report and can be found on page 3. Coronavirus is expected to continue to impact future events in the near term.

Engagement with customers, suppliers and other key stakeholders

The Section 172 report contained within the Strategic Report on pages 8 to 10 outlines the primary ways in which FGW fosters its business relationships with its key stakeholders.

Directors' indemnities

The company's ultimate parent company, FirstGroup plc, has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

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.

First Greater Western Limited
Directors' report (continued)

Auditor

FirstGroup plc undertook a full audit tender process during the year to select a new audit firm to succeed Deloitte, who have been the Group's auditors since 1999. As a result, PwC was selected as the preferred firm and their appointment will be proposed at this year's FirstGroup plc AGM. FGW is grateful to Deloitte for their work as External Auditor over a number of years and we look forward to working with PwC.

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

Duncan Rimmer
Director
6 October 2020
Milford House, 1 Milford Street
Swindon
Wiltshire
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 (United Kingdom Accountancy standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

First Greater Western Limited
Independent auditor's report to the members of First Greater Western Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of First Greater Western Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

First Greater Western Limited
Independent auditor's report to the members of First Greater Western Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

First Greater Western Limited
Independent auditor's report to the members of First Greater Western Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.

David Sweeney (Senior Statutory auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

Glasgow, United Kingdom

6 October 2020

First Greater Western Limited
Profit and Loss Account
Year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Turnover	2	1,439,493	1,257,285
Operating costs			
- General		(1,385,912)	(1,200,825)
- Intangible asset amortisation		(866)	(2,539)
Total operating costs	3	(1,386,778)	(1,203,364)
Operating profit		52,715	53,921
Net interest receivable	7	2,120	2,040
Profit on ordinary activities before taxation	8	54,835	55,961
Tax charge on profit on ordinary activities	9	(9,665)	(11,865)
Retained profit for the year, transferred to reserves		45,170	44,096

All activities relate to continuing operations.

Statement of Comprehensive Income
Year ended 31 March 2020

	Notes	£'000	2020 £'000	£'000	2019 £'000
Profit for the financial year			45,170		44,096
Actuarial gain/(loss) due to scheme assets and liabilities	22	173,000		(74,000)	
Actuarial (loss)/gain due to rail franchise adjustment and shared cost	22	(173,000)		74,000	
Total other comprehensive income			-		-
Total comprehensive income for the year			45,170		44,096

First Greater Western Limited
Balance Sheet
As at 31 March 2020

	Notes	£'000	2020 £'000	£'000	2019 £'000
Assets employed:					
Fixed assets					
Intangible assets	10		-		866
Tangible assets	11		59,169		90,468
			59,169		91,334
Current assets					
Stocks	12	11,125		11,536	
Debtors	13	149,520		190,828	
Cash at bank and in hand	14	276,227		252,353	
		436,872		454,717	
Creditors: amounts falling due within one year	15	(393,874)		(505,958)	
Provisions for liabilities and charges: amounts falling due within one year	16	(4,473)		(24,428)	
Net current assets / (liabilities)			38,525		(75,669)
Total assets less current liabilities			97,694		15,665
Creditors: amounts falling due after one year	17		(62,956)		-
Provisions for liabilities and charges: amounts falling due after more than one year	18		(13,903)		-
Net assets excluding pension liability			20,835		15,665
Pension liability	22		-		-
Net assets			20,835		15,665
Financed by:					
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account			20,835		15,665
Shareholder's funds			20,835		15,665

The financial statements of First Greater Western Limited, registered number 05113733 were approved by the Board of Directors on 6 October 2020 and were signed on its behalf by:

Duncan Rimmer
Director

First Greater Western Limited
Statement of Changes in Equity
Year Ended 31 March 2020

	Notes	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 31 March 2018		-	**21,054**	**21,054**
Total comprehensive income for the financial year		-	44,096	44,096
Dividend payments	20	-	(50,000)	(50,000)
Share-based payments		-	515	515
Balance at 31 March 2019		-	**15,665**	**15,665**
Total comprehensive income for the financial year		-	45,170	45,170
Dividend payments	20	-	(40,000)	(40,000)
Share-based payments		-	-	-
Balance at 31 March 2020		-	**20,835**	**20,835**

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 private company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England and Wales. 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 (see discussion below), modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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

Going concern assessment

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the company's ability to continue as a going concern for the twelve months from the date of the financial statements.

The major assumptions and key areas of judgement incorporated in the modelling included:

- the likelihood of a coronavirus impact in the UK remaining in place for the foreseeable future;
- the possible continuation of the EMA beyond 26 June 2021;
- the potential impacts on financial and trading performance without the levels of government support currently being provided under the EMA for the period post 26 June 2021;
- the protection provided by the 'Forecast Revenue Mechanism' in the DA3 Franchise Agreement; and
- the timing of working capital flows.

These financial forecasts assume continued fiscal and contractual support broadly at the levels currently in place, with the business seeing a gradual but consistent return in passenger revenues, which it is anticipated will continue during the second half of the 2020/21 financial year.

The directors have taken into account that at the conclusion of the EMA period on 26 June 2021, or later if the EMA is further extended, FGW will operate services under the DA3 franchise with revenue risk shared with the DfT through the FRM. This franchise agreement also makes provision for a potential revenue rebasing exercise, if required. The FRM will apply if revenue varies from the targets set out in the bid assumptions. Payments or receipts occur when actual revenue is 1.5% higher or lower than the expected FRM revenue and 90% of the revenue difference will be paid out. This mechanism eliminates much of the revenue risk that the franchise faces and remaining risks to profitability would be addressed by focusing on reductions to costs which would be aligned to service levels proportionate to passenger demands. The existence of this mechanism and provision for a revenue rebasing exercise, means management believe that the company could operate the DA3 franchise as a going concern following the ending of the EMA. This conclusion is formed having considered the significant cash position at 31 March 2020, which is largely maintained over the period of the EMA to 26 June 2021. This means that the extent of losses required to use up the cash headroom or breach the financial covenants in the franchise in the post EMA period of the going concern period, being 12 months from the date of approval of the financial statements, would need to be at a level so significant that the possibility of this occurring is considered remote. Different scenarios of the forecast profitability for the post EMA period have been

1. Principal accounting policies (continued)

examined, including one that the directors consider a worst case scenario. Under this worst case scenario, mitigating actions can be taken that mean the franchise could remain at a level at which continued operation of the franchise would be viable.

Going concern statement

Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the company is exposed, the directors believe that the company has adequate resources to continue in operational existence for the twelve month period from the date on which the financial statements were approved.

Accordingly, the financial statements have been prepared on a going concern basis.

(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. 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

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 shorter of their estimated useful economic lives or the duration of the franchise. Our amortisation policy is as follows:

Computer software	-	3 to 5 years straight-line/duration of franchise

(e) Leases and hire purchase

FGW continues to account for leases under FRS 102 where 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.

(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 weighted average cost and net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

First Greater Western Limited
Notes to the Financial Statements
Year ended 31 March 2020

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

(h) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs). All the financial assets and liabilities are classified as 'basic' under Section 11 of FRS 102. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method

(i) Impairment of financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised

(j) 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.

(k) 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

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

asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet.

Rail franchise adjustment

In calculating the company's pension obligation in respect of the Railway Pension Scheme (RPS), the company's total pension deficit in accordance with FRS 102 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 company'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 the company and recognised in the accounts.

(l) **Turnover**

Turnover primarily 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. Turnover from non-passenger receipts include on train catering income, commission on ticket sales and other sundry income.

FGW also receives franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Amounts receivable are set out in the franchise agreement for each year of the franchise. The franchise agreement includes a minimum specification of passenger services to be provided, which is the key performance obligation.

(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. Income from advanced purchase and other ticket types is recognised in the profit and loss account on the date of travel.

(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 due in 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.

During 2020 there was a change in approach on share-based payments with FGW's parent company now invoicing FGW for the amount of the annual charge. Under this approach there is no longer a credit to shareholder's funds to offset the annual share-based payment charge.

1. Principal accounting policies (continued)

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

The preparation of financial statements in conformity with FRS 102 requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from

these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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.

i) Critical accounting judgements

Defined benefits pension arrangements

The pension scheme retirement benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key judgement is the longevity of members. We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account the scheme's characteristics. Our approach is to review these assumptions for the scheme following completion of their funding valuations, and more frequently only if appropriate to do so.

ii) Key sources of estimation uncertainty

Contract and franchise accounting

Estimates 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 estimates and contracts, which requires assessments and estimates 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. Management is required to estimate the amount receivable and also payable taking account of the information available at the time.

FGW has received contractual and direct fiscal support as a result of coronavirus. The key fundamental principle to the basis of preparation of the financial statements is that this support will continue to be provided until passenger volumes and operated service activities return towards pre-coronavirus levels. The Emergency Measures Agreements (EMAs) transferred all revenue and cost risk to the government for an initial period to 26 June 2021. FGW is paid a small management fee to continue running a revised National Rail timetable. The EMAs signed are effective from 1 March 2020 for DA2 and 1 April 2020 for DA3

1. Principal accounting policies (continued)

Net EMA funding including the management fee is recognised as revenue in Rail franchise subsidy receipts, in line with the revenue recognition policy for franchise subsidy receipts from the DfT. The accounts for the year ended 31 March 2020 have been prepared on the basis that there will be a continuation of EMA or similar for FGW for the duration of the franchise period. If there is no continuation of the EMA or similar agreement, then FGW will revert back to the DA3 franchise agreement, which includes the FRM mechanism

Due to the complex nature of these matters there is a significant risk that a material change could be required to the carrying value of receivables and payables in respect of these items in the next financial year. For the duration of the EMAs, all Franchise Changes are suspended except for Franchise Change events triggered before the EMA. Amounts recoverable for subsidy franchises are in line FRS 102 requirements. The estimated amounts have been included in revenue if it is highly probable that a significant reversal of cumulative revenue for the contracts will not occur when the uncertainty is resolved. FGW considers the recognition and measurement criteria in forming our best estimate of amounts to offset against the franchise premium cost.

2. Turnover

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. During March 2020 FGW saw the introduction of the Emergency Measures Agreement (EMA) due to COVID-19.

	2020 £'000	2019 £'000
Passenger receipts	1,022,651	995,696
Revenue subsidy	300,968	193,766
Other revenue	115,874	67,823
	1,439,493	1,257,285

3. Operating costs

	Note	2020 £'000	2019 £'000
Raw materials and consumables		75,217	107,372
Staff costs	4	363,001	339,911
Other external charges		918,986	699,244
Net franchise payments		(12,737)	14,939
Grant amortisation releases		(46,969)	(29,411)
Depreciation and other amounts written off tangible fixed assets and intangible fixed assets		89,280	71,309
		1,386,778	1,203,364

3. Operating costs (continued)

The increase in other external charges versus the prior year reflects the improvement in performance by Network Rail which performance related payments received by FGW in 2020. In addition, the other external charges for 2020 includes a full year of costs related to the new Hitachi fleet. Grant amortisation increased versus prior year as funded station and depot development programmes were completed and amortisation commenced.

4. Employee numbers and costs

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

	2020 Actual Heads	2019 Actuals Heads	2020 FTE Heads	2019 FTE Heads
Traincrew including traincrew management	3,629	3,305	3,530	3,261
Maintenance	972	1,060	963	1,047
Customer service	1,460	1,382	1,366	1,301
Administration	408	414	370	340
	6,469	6,161	6,229	5,949

The aggregate payroll costs of these persons were as follows:

	2020 £'000	2019 £'000
Wages and salaries	308,670	289,623
Social security costs	33,383	31,237
Other pension costs	20,948	19,051
	363,001	339,911

5. Directors' remuneration

Certain directors (Kevin Gardner, 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. 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:

	2020 £'000	2019 £'000
Aggregate emoluments (excluding pension contributions)	685	1,106

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.

5. Directors' remuneration (continued)

	2020 Number	2019 Number
The number of directors who:		
Were members of a defined benefit pension scheme	5	4

The emoluments of the highest paid director amounted to:

	2020 £'000	2019 £'000
Aggregate emoluments	282	413
Defined benefit scheme		
Accrued pension at end of year	50	46
Accrued lump sum at end of year	24	22

During the year the highest paid director exercised share options and received 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. 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 in FirstGroup plc for every three shares bought by employees, subject to a maximum company contribution or shares to a value of £20 per employee per month. If the shares are held in a trust for five years or more, no income tax or national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

The group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total expense of £1,278,000 (2019: £515,000) relating to equity-settled share-based payment transactions.

6. Share-based payments (continued)

	2020 £'000	2019 £'000
Total expense recognised in the profit and loss account	1,278	515
Contribution paid to First Rail Holdings Limited (parent company)	(1,278)	-
Credited to shareholders funds	-	515

Share-based payment expense comprises costs arising from FirstGroup plc shares schemes including Save As You Earn, Employee Share Plan and Deferred Bonus Shares. Further details on these share schemes can be found in the FirstGroup plc Annual Report and Accounts.

7. Net interest receivable

	2020 £'000	2019 £'000
Interest receivable and similar income		
Amounts receivable from group undertakings	986	1,228
Bank interest	1,134	812
Net interest receivable	2,120	2,040

8. Profit on ordinary activities before taxation

	2020 £'000	2019 £'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	325	296
Deloitte LLP non-audit fee for other services	7	15
Depreciation on tangible and amortisation from intangible owned assets	90,146	71,309
Cost of stock recognised as an expense	64,646	96,360
Rentals payable under operating leases		
Plant and machinery*	246,430	211,786
Other operating leases	152,411	143,970
Net rents receivable from property	(4,297)	(3,896)

*Rentals payable under operating leases for plant and machinery include rentals for rolling stock. The rolling stock leases include a significant maintenance component which is not included in the figures stated above. The maintenance component associated with the rolling stock leases within plant and machinery was £204.1m (2019: £137.9 m).

9. Tax charge on profit on ordinary activities

	2020 £'000	2019 £'000
Current taxation		
UK Corporation tax	-	1,889
Group relief payable	9,737	9,243
Adjustment in respect of prior years	332	(231)
Total current taxation	10,069	10,901
Deferred taxation		
Origination and reversal of timing differences	908	(408)
Effect of increase in tax rate on opening deferred tax balance	(1,048)	-
Adjustment in respect of prior years	(264)	1,372
	(404)	964
Total tax charge on profit on ordinary activities	9,665	11,865

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2019: 19%). 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:

	2020 £'000	2019 £'000
Profit before tax on ordinary activities	54,835	55,961
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom (19%) (2019: 19%)	10,419	10,633
Factors affecting charge		
Expenses not deductible for tax purposes	226	48
Prior year adjustments	68	1,141
Effect of decrease in tax rate on origination and reversal of timing differences	-	43
Effect of increase in tax rate on opening deferred tax balance	(1,048)	-
Total tax charge on profit on ordinary activities 17.6% (2019: 21.2%)	9,665	11,865

The UK Government enacted legislation to maintain the main rate of UK corporation tax at 19% from 1 April 2020 and deferred tax is now calculated at 19%. Under the enacted legislation at 31 March 2019 the rate was set to reduce to 17% from 31 March 2020 resulting in deferred tax being calculated at 17% in the prior year.

10. Intangible fixed assets

	Computer Software £'000	Total £'000
Cost		
At 1 April 2019 and 31 March 2020	5,450	5,450
Accumulated amortisation		
At 1 April 2019	4,584	4,584
Charge for year	866	866
At 31 March 2020	5,450	5,450
Net book value		
At 31 March 2020	-	-
At 31 March 2019	866	866

Computer Software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation. Costs include software licenses, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software.

11. Tangible fixed assets

	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 1 April 2019 (restated)	152,994	189,365	44,922	387,281
Additions	-	-	57,981	57,981
Transfers	8,214	35,520	(43,734)	-
Disposals	(136,557)	-	-	(136,557)
At 31 March 2020	24,651	224,885	59,169	308,705
Accumulated depreciation				
At 1 April 2019	146,484	150,329	-	296,813
Charge for year	14,724	74,556	-	89,280
Disposals	(136,557)	-	-	(136,557)
At 31 March 2020	24,651	224,885	-	249,536
Net book value				
At 31 March 2020	-	-	59,169	59,169
At 31 March 2019 (restated)	6,510	39,036	44,922	90,468

The opening cost of the fixed assets has been restated to appropriately reflect the assets under construction. This change was reclassification only and had no impact on the total net book value of tangible fixed assets.

In accordance with the accounting policy, all assets need to be fully depreciated by the end of the franchise which is 31 March 2020. The assets under construction will be transferred into the new franchise.

12. Stocks

	2020 £'000	2019 £'000
Spare parts and consumables	11,125	11,536

13. Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade debtors	40,632	78,225
Provision on trade debtors	(321)	(249)
Amounts owed by group undertakings	434	716
VAT	5,389	24,717
Other debtors	7,945	34,511
Accrued income	85,960	5,016
Prepayments	433	39,248
Deferred tax	9,048	8,644
	149,520	190,828

	Note	£'000
Deferred tax asset		
At 1 April 2019		8,644
Credit to the profit and loss account	9	404
At 31 March 2020		9,048

The deferred tax asset consists of the following amounts:

	2020 £'000	2019 £'000
Capital allowances in excess of depreciation	7,655	7,631
Other timing differences	1,393	1,013
Deferred tax asset	9,048	8,644

During the year beginning 1 April 2020, the net reversal of deferred tax assets is expected to decrease the charge to corporation tax for the year by £1,609,000, mainly due to depreciation, capital allowances and capital grant amortisation.

14. Cash at bank and in hand

	2020 £'000	2019 £'000
Bank deposits	276,227	252,353

Cash and cash equivalents include ring-fenced cash of £265.6m (2019: £226.8m). Under the terms of the franchise agreement, the company can only distribute cash either up to the value of intercompany creditors plus group tax relief balances 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.

15. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	71,049	54,897
Amounts owed to group undertakings	7,707	6,440
Group tax relief	4,856	1,013
Corporation tax	-	1,889
Other tax and social security	16,135	8,014
Other creditors	22,280	27,953
Deferred income	15,138	34,427
Accruals and capital grant income	256,709	371,325
	393,874	505,958

Amounts owed to group undertakings relate primarily to charges owed to First Rail Holdings Limited. All intercompany transactions are payable on demand and are interest free.

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

	Legal & Other £'000	Total £'000
At 1 April 2019	24,428	24,428
Charged to the profit and loss account	(2,005)	(2,005)
Utilised in the year	(6,747)	(6,747)
Transfer to provisions greater than one year	(11,203)	(11,203)
At 31 March 2020	4,473	4,473

During the year £11.2m of the dilapidation provision transferred to falling due more than one year, this switch was triggered by FGW entering into the DA3 agreement which was signed in March 2020, see note 18. During the year payments were made for rolling stock dilapidations and planned restructuring works.

17. Creditors: amounts falling due after one year

	2020 £'000	2019 £'000
Capital deferrals and capital grant income	62,956	-

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

	Legal & Other £'000	Total £'000
At 1 April 2019	-	-
Charged to the profit and loss account	2,700	2,700
Transfer from provisions less than one year	11,203	11,203
At 31 March 2020	13,903	13,903

As FGW entered into DA3 in March 2020, this provision transfers from provisions falling within one year, see note 16.

19. Called up share capital

	2020 £	2019 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1 each	1	1

20. Dividends

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 2019/20 a final dividend was paid to First Rail Holdings Limited of £20.0m (2019: £25.0m), the company's immediate controlling entity. An interim dividend was paid during the year of £20.0m (2019: £25.0m) also to First Rail Holdings Limited.

21. Commitments

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

	2020 £'000	2019 £'000
Contracted for but not provided	32,929	56,107

Capital commitments primarily relate to the exam schedule on our train vehicles, fleet depot development and station upgrade programmes. Commitments have decreased versus prior year due to the exam schedule on our train vehicles and key projects such as Exeter Depot refurbishment nearing completion.

Operating leases

Minimum lease payments made under operating leases recognised in the income statement for the year:

	2020 £'000	2019 £'000
Plant and machinery	720	776
Hire of rolling stock*	245,710	211,010
Track and station access	151,582	142,221
Other assets	829	1,748
	398,841	355,755

*The contract for the hire of rolling stock includes a significant maintenance element which has also been recognised in the income statement for the year

	2020 £'000	2019 £'000
Maintenance of rolling stock	204,120	137,896

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2020 £'000	2019 £'000
Within one year**	378,400	332,617
In the second to fifth years inclusive**	588,780	234
	967,180	332,851

Included in the above commitments within one year are contracts held with Network Rail for access to the railway infrastructure track, stations and depots of £121.0m (2019: £150.4m). The remaining commitments for both 2020 and 2019 are primarily for the lease of rolling stock. The low value of minimum lease payments falling due in the second to fifth years inclusive at the end of 2019 was due to the expiry of the DA2 franchise on 31 March 2020. The DA3 franchise ceases 31 March 2023 resulting in 2 years of commitments within the second to fifth year bracket.

21. Commitments (continued)

**At the balance sheet date, the company had outstanding commitments for future rolling stock maintenance payments associated with non-cancellable operating leases, which fall due as follows:

	2020 £'000	2019 £'000
Within one year	206,008	204,120
In the second to fifth years inclusive	423,839	-
	629,847	204,120

The low value of maintenance payments falling due in the second to fifth years inclusive at the end of 2019 was due to the expiry of the DA2 franchise on 31 March 2020. The DA3 franchise ceases 31 March 2023 resulting in 2 years of commitments within the second to fifth year bracket.

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 account in the year ended 31 March 2020 was £0.4m (2019: £0.3m).

Defined benefit schemes

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 (RPS).

Under the terms of the 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 £18.8m (2019: £16.8m).

FGW's responsibility is to pay the contributions following triennial funding valuations whilst it operates the franchise. These contributions are subject to change on consideration of future statutory valuations. In addition, at the end of the franchise, any deficit or surplus in the scheme section passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder.

The scheme is valued triennially, when the cost of future service is calculated, and the funding position established. The 2019 actuarial valuation was updated for 31 March 2020; at this date the market value of the scheme's assets totalled £1,003.9m. The actuarial value of these assets was sufficient to cover 66% (2019: 61%) 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 8.04% (2019: 8.04%) for employees and 12.06% (2019: 12.06%) for the employer.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered under FRS 102. The contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under FRS 102 and FGW does not account for uncommitted contributions towards its current or expected future deficits. Therefore, FGW does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with FGW members. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions. The franchise adjustment on the balance sheet date reflects the extent to which FGW is not currently committed to fund the deficit.

22. Pension liability (continued)

The actuarial assumptions used in determining the last full actuarial valuation (31 December 2013) 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.

Financial assumptions

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

	2020	**2019**
Rate of increase in salaries	2.75%	3.40%
Rate of increase of pensions in payment	1.80%	2.15%
Rate of increase of pensions in deferment	1.80%	2.15%
Discount rate	2.40%	2.40%
Inflation assumption – RPI	2.50%	3.15%
Inflation assumption – CPI	1.80%	2.15%

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. The post-retirement mortality (life expectancy in years) current rate for pensioners at 65 is 21.1 years (2019: 21.1 years). Future pensioners aged 65 (45 now) will have a rate of 22.3 years (2019: 22.3). There has been no change in these rates over the last 12 months.

The breakdown of the asset fair value by asset type is as follows:

	2020	**2019**
	£'000	**£'000**
Equities	100,100	95,800
Property	11,600	14,000
Cash and cash equivalents	6,500	3,800
Other return seeking assets	885,700	877,800
	1,003,900	991,400

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.

First Greater Western Limited
Notes to the Financial Statements
Year ended 31 March 2020

22. Pension liability (continued)

Reconciliation of movements

	Assets £m	Liabilities £m	Shared cost £m	Franchise impact £m	Net £m
At 1 April 2018	**888.7**	**(1,390.2)**	**200.6**	**300.9**	**-**
Income statement					
Operating					
Service cost	-	(66.0)	26.2	23.0	(16.8)
Admin cost	-	(3.7)	1.5	-	(2.2)
Past service gain including curtailments	-	(1.4)	0.6	0.8	-
Total operating	**-**	**(71.1)**	**28.3**	**23.8**	**(19.0)**
Financing	**23.9**	**(36.9)**	**5.2**	**7.8**	**-**
Total income statement	**23.9**	**(108.0)**	**33.5**	**31.6**	**(19.0)**
Amounts paid to/(from) scheme					
Employer contributions	18.7	-	(7.6)	7.6	18.7
BRASS matching contributions	0.3	-	-	-	0.3
Employee contributions	12.4	-	(4.9)	(7.5)	-
Benefits paid	(45.1)	45.1	-	-	-
Total	**(13.7)**	**45.1**	**(12.5)**	**0.1**	**19.0**
Expected closing position	**898.9**	**(1,453.1)**	**221.6**	**332.6**	**-**
Gains/(loss)					
Change in actuarial assumptions	-	(133.0)	53.2	79.8	-
Change in demographic assumptions	-	(28.5)	11.4	17.1	-
Return on assets in excess of discount rate	92.5	-	(37.0)	(55.5)	-
Experience	-	(5.0)	2.1	2.9	-
Total	**92.5**	**(166.5)**	**29.7**	**44.3**	**-**
At 31 March 2019	**991.4**	**(1,619.6)**	**251.3**	**376.9**	**-**

22. Pension liability (continued)

Reconciliation of movements

	Assets	Liabilities	Shared cost	Franchise impact	Net
	£m	£m	£m	£m	£m
At 1 April 2019	**991.4**	**(1,619.6)**	**251.3**	**376.9**	**-**
Income statement					
Operating					
Service cost	-	(80.1)	32.0	29.3	(18.8)
Admin cost	-	(3.3)	1.3	-	(2.0)
Total operating	**-**	**(83.4)**	**33.3**	**29.3**	**(20.8)**
Financing	**24.0**	**(37.6)**	**5.4**	**8.2**	**-**
Total income statement	**24.0**	**(121.0)**	**38.7**	**37.5**	**(20.8)**
Amounts paid to/(from) scheme					
Employer contributions	20.8	-	(8.3)	8.3	20.8
Employee contributions	13.8	-	(5.5)	(8.3)	-
Benefits paid	(37.7)	37.7	-	-	-
Total	**(3.1)**	**37.7**	**(13.8)**	**-**	**20.8**
Expected closing position	**1,012.3**	**(1,702.9)**	**276.2**	**414.4**	**-**
Gains/(loss)					
Change in actuarial assumptions	-	175.8	(70.3)	(105.5)	-
Return on assets in excess of discount rate	(8.4)	-	3.4	5.0	-
Experience	-	5.6	(2.3)	(3.3)	-
Total	**(8.4)**	**181.4**	**(69.2)**	**(103.8)**	**-**
At 31 March 2020	**1,003.9**	**(1,521.5)**	**207.0**	**310.6**	**-**

23 Contingent liabilities

The Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long-term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and FirstGroup plc, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

24 Post balance sheet events

FGW and the DfT signed the Emergency Measures Agreement (EMA) for DA2 signed on 22 June 2020. The DA2 EMA resulted in the government waiving our revenue, cost and contingent capital risk and instead will pay FGW a fixed management fee. The impact of the DA2 EMA has been incorporated into the results for the financial year ended 31 March 2020.

At the date of signing of these accounts, FGW continued to operate under the DA3 EMA which has now been extended until 26 June 2021. While in operation, the EMA provides FGW with protection from the continuing loss of revenues resulting from coronavirus.

25 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 8th Floor, The Point, 37 North Wharf Road, Paddington, London, W2 1AF.