

**Company Registration No. 05113733**

**First Greater Western Limited**

**Report and Financial Statements**

**For the year ended 31 March 2018**



# **First Greater Western Limited**

## **Report and financial statements 2018**

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# **First Greater Western Limited**

## **Strategic Report**

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

### **Principal activities**

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

### **Business review and future outlook**

First Greater Western (FGW) currently operates under a direct award which runs to the end of March 2020 following the Department for Transport's (DfT) decision in the year to exercise an extension option.

We have a strong track record in close partnership working with Network Rail, the DfT and all industry partners to deliver infrastructure upgrades whilst minimising disruption for passengers. Completion of these projects typically permits the introduction into service of additional train capacity or more intense timetables, which in turn generates the patronage growth that drives the franchise business plans and consequentially the premium payments to government. Network Rail's electrification work continues on the Great Western mainline, albeit at a slower rate than originally envisaged, and we are working with our industry partners to reflect the impact of these delays in the level of our franchise commitments and model. Our franchise covers a period during which there is significant change (major infrastructure work, electrification and resignalling, and introduction of new trains). These changes require careful planning, management and negotiation with industry partners, in particular where delays can impact the delivery of franchise assumptions. Failure to manage these risks adequately could result in financial and reputational impacts to the company.

With the line electrified as far as Didcot, the move of suburban electric trains to run between London and Didcot under a new timetable was able to be completed by January 2018, providing more capacity. In turn, we have also begun cascading the London suburban Turbo trains to Bristol and the West County where they will provide more seats for the network there. We began introducing the new higher capacity Intercity Express Trains (IETs) on longer distances from last October. When this fleet is fully operational it will enable a 40% increase in seat numbers compared to 2015, with quicker journey times and more frequent services.

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 in the year 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. We have introduced new ticket machines which make it easy to find the best value fares. During 2017/18 we completed our 2-day customer service training programme covering more than 5,000 frontline employees.

FGW continued its profitable performance under the direct awards and continued its strong progress on the fleet and infrastructure projects in conjunction with industry partners. The company made an operating profit of £43.0m (2017: £47.1m) on turnover of £1,019.6m (2017: £998.4m). Passenger receipts grew by 2.2% (2017: 0.3%) over the year (2018: £960.6m versus 2017: £940.0m). Limited passenger receipt growth was partially offset by cost efficiencies and resolution of historic performance regime discussions with the DfT. Delays in electrification have impacted performance and therefore passenger receipts, which has been offset by projected costs not being incurred relating to electrification. Industry studies suggest the main drivers for the slowing in passenger receipts across the sector include UK macroeconomic uncertainty, modal shift due to sustained lower fuel prices and working practices, and the effect of rail infrastructure upgrade work taking place across the country. The latter is particularly relevant to FGW, although passenger receipts growth in the franchise accelerated during the year, benefiting in part from the additional capacity generated by the introduction into service of the IETs. FGW will continue to focus on growing revenue and reducing its addressable cost base in the year ahead.

# **First Greater Western Limited**

## **Strategic Report (continued)**

### **Responsible partnerships with our customers and communities**

FGW were awarded the titles of Rail Operator of the Year and Rail Business of the Year during this period, recognising the introduction of new fleets and their highest ever National Rail Passenger Survey customer satisfaction figures in 2016.

During the year an agreement with Heathrow Airport was reached for FGW to run the operational aspects of Heathrow Express including the introduction of a dedicated fleet of trains by December 2019. FGW also worked with TfL and industry partners to prepare for the launch of the Elizabeth Line, with suburban stations transferred to TfL Rail operation in early 2018.

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

### **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.

FGW continues to demonstrate significant strengths across the business, both operationally and from a fleet and infrastructure perspective. This is proving critical in managing the changes being delivered from a train and infrastructure perspective and ensuring minimum impact on our customers. It is through this investment in infrastructure, station, rolling stock and with new timetables over the next few years, that we plan to deliver substantial 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 the challenges in the future, helping fully deliver the Great Western Electrification.

Coupled with this, we continue to work with the DfT to develop and implement the "Delay Repay 15" policy giving passengers improved compensation when services are disrupted.

### **Key Performance Indicators**

Train operating performance decreased during 2017/18 versus 2016/17 with our public performance measure moving annual average score standing at 85.6% (2017: 88.4%). Significant challenges were posed by Network Rail infrastructure reliability; a by-product of the transition from the ongoing transformation on the Western Route. Performance was also impacted by fleet and train crew related delays.

In the latest independent Transport Focus National Rail Passenger Survey, FGW saw a year-on-year fall to 79% (2017: 82%). The introduction of new fleets; IET and 387, along with the roll-out of new ticketing purchase channels has delivered on key experiential aspects for our customers. The full potential of these fleets has been held back by infrastructure issues and the delay in fleet cascade across the franchise area.

FGW's average headcount in the year decreased to 5,863 (2017: 5,918), a decrease of 0.9%. Additional traincrew to enable training for operation during Network Rail infrastructure works and FGWs fleet cascade programme has been offset by a decrease in engineering heads due to the restructuring of fleet depots.

# **First Greater Western Limited**

## **Strategic report (continued)**

### **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 the 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.

### **Rail franchise agreements**

The company is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the rail franchise agreement. This would result in the company losing the right to continue operating the affected operations and consequently, the related revenues or cash flows. The company may also lose some or all of the amounts set aside as security for its performance bond and the season ticket bond. As discussed in the business review and future outlook section of the Strategic Report, FGW Limited currently operates under a direct award which runs to the end of March 2020 following the Department for Transport's (DfT) decision in the year to exercise an extension option. Throughout the franchise there will be significant change including major infrastructure work, electrification and re-signalling as well as the introduction of new trains, which will require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational risk to the company.

Compliance with franchise conditions are closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.

### **Information technology (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 & 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.

# **First Greater Western Limited**

## **Strategic report (continued)**

### **Political and regulatory issues**

Our business is subject to numerous laws and regulations covering a wide range of matters including health and safety, equipment, employment (including working time, wage and hour, mandatory breaks and holiday pay), competition and anti-trust, data protection and security, bribery and corruption, environment, insurance coverage, consumer protection, and other operational issues. Failure to comply could have financial or reputational implications, could result in increased litigation and claims and have a negative impact on FGW. These laws and regulations are constantly subject to change, the impact of which could include increased compliance costs and/or a reduction in operational flexibility and efficiency.

To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup 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 and performance as priorities in making our service attractive to passengers and other customers. In addition, we work with local and national bodies to promote measures aimed at increasing demand for our services. 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.

### **Pensions**

FGW primarily participates in a defined benefits pension scheme. Future cash contribution requirements may increase or decrease based upon financial markets, notably investment returns/valuations, the rates used to value the liabilities and through changes to life expectancy and could result in material changes in the accounting cost and cash contributions required.

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

### **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 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.

# **First Greater Western Limited**

## **Strategic report (continued)**

### **Employee costs and relations**

Labour costs represent a significant component of the company's operating costs. Labour shortages, or low unemployment rates, could hinder the company's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. 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.

### **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 adverse weather disruption impacting our service levels. Severe weather can reduce profits, for example through lower demand for our services, increased costs and business disruption. We have severe weather action plans and procedures to manage the impact on our operations.

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 specifically in our security and safety record and could reduce demand for our service, 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.

# **First Greater Western Limited**

## **Strategic report (continued)**

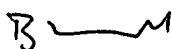
### **Economic conditions including Brexit Implications**

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. Any changes in economic activity may impact upon the passenger numbers and hence our operations. A downturn in economic conditions could have a negative impact on our business in terms of reduced demand and reduced opportunities for growth. Improving economic conditions may also 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.

The UK departure from the European Union (Brexit) may adversely impact the UK's economic position which in turn may have an adverse impact on our operations.

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

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



Dr Benjamin Caswell  
Director  
21 June 2018  
Milford House  
1 Milford Street  
Swindon  
Wiltshire, SN1 1HL



# First Greater Western Limited

## Directors' report

The directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 March 2018. A review of the business and the future developments are set out in the Strategic report.

### Directors

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

Directors who held office throughout the year:

Dr Benjamin Caswell  
Clive Burrows  
Mark Hopwood

Matthew Golton  
Hugh Clancy  
Stephen Montgomery

The following directors resigned during the year; Andrew Mellors 18 August 2017 and Martin Stoolman 22 June 2017. The following director were appointed during the year; Kevin Gardner 12 July 2017 and Richard Westcott 12 July 2017.

### Employee consultation

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

### Disabled persons

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

### Going concern

During the year the DfT exercised a franchise extension option and extended the FGW franchise by one year to March 2020. The directors have considered the going concern assumption given the current economic climate and the Direct Agreement to at least 31<sup>st</sup> March 2020, and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future, being at least 12 months from the date of approving these financial statements. The directors have considered the company forecasts, current level of capital commitment and the parent company commitment in forming this judgement. A Letter of Support has been provided by FirstGroup plc to state that it will provide the company with sufficient working capital to allow it to continue in business for at least twelve months from date of signing of the annual accounts with reference to the net current liabilities position of £67.6m on the balance sheet.

After making such enquiries and considering the above facts, the directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

# **First Greater Western Limited**

## **Directors' report (continued)**

### **Financial risk management objectives and policies**

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

### **Financial matters**

The results for the year are given in the profit and loss account on page 14.

During 2017/18 a final dividend was paid to First Rail Holdings Limited of £40.0m (2017: Nil), the company's immediate controlling entity. No interim dividend was paid during the year (2017: £30.0m) to First Rail Holdings Limited, reference note 20.

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.

### **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.

### **Auditor**

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

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



Dr Benjamin Caswell  
Director  
21 June 2018  
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:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 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 of First Greater Western Limited (the 'company') which comprise:

- the Profit and Loss Account;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 23.

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 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 Report and Financial Statements, 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **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.

## **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.

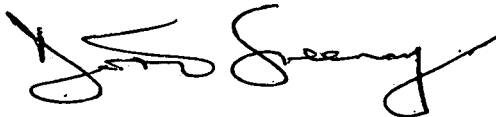
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### **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.



David Sweeney (Senior Statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Glasgow, United Kingdom  
22 June 2018

# First Greater Western Limited

## Profit and Loss Account Year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
<b>Turnover</b>	2	1,019,613	998,401
<b>Operating costs</b>			
- General		(974,562)	(950,954)
- Intangible asset amortisation		(2,012)	(320)
<b>Total operating costs</b>	3	(976,574)	(951,274)
<b>Operating profit</b>		43,039	47,127
<b>Net interest receivable</b>	7	1,108	1,016
<b>Profit on ordinary activities before taxation</b>	8	44,147	48,143
<b>Tax charge on profit on ordinary activities</b>	9	(8,871)	(10,388)
<b>Retained profit for the year, transferred to reserves</b>		35,276	37,755

All activities relate to continuing operations.

## Statement of comprehensive income Year ended 31 March 2018


	Notes	£'000	2018 £'000	£'000	2017 £'000
<b>Profit for the financial year</b>			35,276		37,755
<b>Actuarial loss due to scheme assets and liabilities</b>	22	(46,800)		(139,256)	
<b>Actuarial gain due to rail franchise adjustment</b>		46,800		139,256	
<b>Total other comprehensive income</b>			-		-
<b>Total comprehensive income for the year</b>			35,276		37,755

# First Greater Western Limited

## Balance sheet As at 31 March 2018

	Notes	£'000	2018 £'000	£'000	2017 £'000
<b>Assets employed:</b>					
<b>Fixed assets</b>					
Intangible assets	10		3,293		3,943
Tangible assets	11		90,972		80,599
			<u>94,265</u>		<u>84,542</u>
<b>Non-current assets</b>					
Long term receivables	12		-		8,975
<b>Current assets</b>					
Stocks	13	12,217		16,059	
Debtors	14	137,947		93,212	
Cash at bank and in hand	15	234,977		245,526	
			<u>385,141</u>	<u>354,797</u>	
<b>Creditors: amounts falling due within one year</b>	16	(425,465)		(393,433)	
<b>Provisions for liabilities and charges: amounts falling due within one year</b>	17	(27,264)		(8,361)	
<b>Net current liabilities</b>			<u>(67,588)</u>		<u>(46,997)</u>
<b>Total assets less current liabilities</b>			<u>26,677</u>		<u>46,520</u>
<b>Creditors: amounts falling due after more than one year</b>			-		-
<b>Provisions for liabilities and charges: amounts falling due after more than one year</b>	18		<u>(5,623)</u>		<u>(21,281)</u>
<b>Net assets excluding pension liability</b>			<u>21,054</u>		<u>25,239</u>
<b>Pension liability</b>	22		-		-
<b>Net assets</b>			<u>21,054</u>		<u>25,239</u>
<b>Financed by:</b>					
<b>Capital and reserves</b>					
Called up share capital	19		-		-
Profit and loss account			21,054		25,239
<b>Shareholder's funds</b>			<u>21,054</u>		<u>25,239</u>

The financial statements of First Greater Western Limited, registered number 05113733 were approved by the Board of Directors on 21 June 2018 and were signed on its behalf by:

  
Dr Benjamin Caswell  
Director



# First Greater Western Limited

## Statement of changes in equity Year ended 31 March 2018

	Notes	Called up share capital £'000	Profit and loss account £'000	Total £'000
<b>Balance at 31 March 2016</b>		-	<b>17,089</b>	<b>17,089</b>
Total comprehensive income for the financial year		-	37,755	37,755
Dividend payments	20	-	(30,000)	(30,000)
Share-based payments		-	395	395
		<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2017</b>		-	<b>25,239</b>	<b>25,239</b>
Total comprehensive income for the financial year		-	35,276	35,276
Dividend payments	20	-	(40,000)	(40,000)
Share-based payments		-	539	539
		<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2018</b>		-	<b>21,054</b>	<b>21,054</b>
		<hr/>	<hr/>	<hr/>

# First Greater Western Limited

## Notes to the financial statements Year ended 31 March 2018

### 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 as described in the going concern statement in the Directors' Report on page 8, 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, presentation of a cash-flow statement, intra group transactions and remuneration of key management personnel.

#### (c) Tangible fixed assets and depreciation

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

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

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.

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 1. Principal accounting policies (continued)

#### (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.

#### (h) Financial assets and liabilities

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

#### (i) Taxation

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

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

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is not provided on temporary differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### (j) Pension costs

##### Company specific schemes

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

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

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet.

# **First Greater Western Limited**

## **Notes to the financial statements (continued)** **Year ended 31 March 2018**

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

#### **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.

#### **(k) 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.

#### **(l) 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.

#### **(m) Provisions**

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

#### **(n) Share-based payments**

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

Fair value is measured by use of a Black-Scholes model or other appropriate valuation models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

# **First Greater Western Limited**

## **Notes to the financial statements (continued)** **Year ended 31 March 2018**

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

#### **(o) Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with generally accepted accounting principles 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**

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

#### **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.

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 2. Turnover and profit on ordinary activities before taxation

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

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

	2018 £'000	2017 £'000
Passenger receipts	960,555	940,049
Other revenue	59,058	58,352
	<u>1,019,613</u>	<u>998,401</u>

### 3. Operating costs

	Note	2018 £'000	2017 £'000
Raw materials and consumables		106,367	96,223
Staff costs	4	330,233	321,154
Other external charges		439,930	358,510
Net franchise payments		31,028	132,265
Grant amortisation releases		(15,940)	(4,525)
Depreciation and other amounts written off tangible fixed assets and intangible fixed assets		<u>84,956</u>	<u>47,647</u>
		<u>976,574</u>	<u>951,274</u>

The decrease in franchise payments versus prior year reflects the franchise model assumptions agreed with the DfT. There has been investment in new trains in the current year, which is reflected in other external charges.

### 4. Employee numbers and costs

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

	2018 Number	2017 Number
Traincrew including traincrew management	3,024	2,980
Maintenance	1,184	1,243
Customer service	1,301	1,347
Administration	<u>354</u>	<u>348</u>
	<u>5,863</u>	<u>5,918</u>

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 4. Employee numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	281,632	276,102
Social security costs	30,287	27,097
Other pension costs	18,314	17,955
	<u>330,233</u>	<u>321,154</u>

### 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:

	2018 £'000	2017 £'000
Aggregate emoluments (excluding pension contributions)	1,103	1,028
Compensation for loss of office	-	97
	<u>1,103</u>	<u>1,125</u>

Directors' emoluments include salary, fees, bonuses, sums paid by way of expense allowances subject to UK income tax and the money value of other non-cash benefits and exclude share options, company pension contributions and payments made under long-term incentive schemes.

	2018 Number	2017 Number
The number of directors who: Were members of a defined benefit pension scheme	<u>6</u>	<u>6</u>

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 5. Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2018 £'000	2017 £'000
Aggregate emoluments:		
Basic	248	241
Bonus	192	76
Allowances	10	10
Benefits	2	2
	<u>452</u>	<u>329</u>
<i>Defined benefit scheme</i>		
Accrued pension at end of year	40	36
Accrued lump sum at end of year	<u>19</u>	<u>17</u>

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

### 6. Share-based payments

#### Save as you earn (SAYE)

The company's ultimate parent company operates an HMRC approved savings-related share option scheme. Grants were made as set out below. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period. Share save accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months. Details of the share options outstanding during the year are disclosed in the published financial statements for FirstGroup plc.

#### Buy as you earn (BAYE)

BAYE enables eligible employees to purchase shares from their gross income. The company provides two matching shares 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 £539,000 (2017: £395,000) relating to equity-settled share-based payment transactions.



# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 7. Net interest receivable

	2018 £'000	2017 £'000
<i>Interest payable and similar charges</i>		
Bank interest payable	(3)	-
	<u>(3)</u>	<u>-</u>
<i>Interest receivable and similar income</i>		
Amounts receivable from group undertakings	429	100
Bank interest	682	916
	<u>1,108</u>	<u>1,016</u>
Net interest receivable		

### 8. Profit on ordinary activities before taxation

	2018 £'000	2017 £'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	214	120
- Deloitte LLP non-audit fee for other services	15	14
Depreciation on tangible and amortisation from intangible owned assets	84,956	47,647
Cost of stock recognised as an expense	96,677	86,750
Loss on disposal of fixed assets	1,050	-
Rentals payable under operating leases		
- plant and machinery	111,697	61,346
- other operating leases	104,826	101,692
Net rents receivable from property	<u>(3,652)</u>	<u>(4,139)</u>

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 9. Tax charge on profit on ordinary activities

	2018 £'000	2017 £'000
Current taxation		
- Group relief payable	9,480	8,920
- Adjustment in respect of prior years	438	838
Total current taxation	9,918	9,758
Deferred taxation		
- Origination and reversal of timing differences	(932)	579
- Effect of decrease in tax rate on opening deferred tax balance	-	538
- Adjustment in respect of prior years	(115)	(487)
	(1,047)	630
Total tax charge on profit on ordinary activities	8,871	10,388

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2017: 20%). 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:

	2018 £'000	2017 £'000
Profit before tax on ordinary activities	44,147	48,143
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom (19%) (2017: 20%)	8,388	9,629
Factors affecting charge		
- Expenses not deductible for tax purposes	62	(28)
- Prior year adjustments	323	351
- Effect of decrease in tax rate on opening deferred tax balance	-	538
- Effect of decrease in tax rate on origination and reversal of timing differences	98	(102)
Total tax charge on profit on ordinary activities (19.9%) (2017: 21.6%)	8,871	10,388

The UK Government enacted legislation to reduce the main rate of UK corporation tax to 17% with effect from 1 April 2020.

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 10. Intangible fixed assets

	Computer Software £'000	Total £'000
<b>Cost</b>		
At 1 April 2017	4,263	4,263
Additions	1,615	1,615
Disposals	(540)	(540)
At 31 March 2018	5,338	5,338
<b>Accumulated amortisation</b>		
At 1 April 2017	320	320
Charge for year	2,012	2,012
Disposals	(287)	(287)
At 31 March 2018	2,045	2,045
<b>Net book value</b>		
At 31 March 2018	3,293	3,293
At 31 March 2017	3,943	3,943

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.

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 11. Tangible fixed assets

	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Total £'000
<b>Cost</b>			
At 1 April 2017	178,666	129,232	307,898
Additions	36,478	57,630	94,108
Disposals	(56,327)	(4,732)	(61,059)
At 31 March 2018	158,817	182,130	340,947
<b>Accumulated depreciation</b>			
At 1 April 2017	142,280	85,019	227,299
Charge for year	58,133	24,811	82,944
Disposals	(56,327)	(3,941)	(60,268)
At 31 March 2018	144,086	105,889	249,975
<b>Net book value</b>			
At 31 March 2018	14,731	76,241	90,972
At 31 March 2017	36,386	44,213	80,599

Included in Other plant and equipment is £0.9m (2017: £7.4m) of construction in progress assets, which are not depreciated until they are brought into use. This primarily relates to depot improvement works and train modifications.

### 12. Non-current assets

	2018 £'000	2017 £'000
Long term receivables	-	8,975

Long term receivables 2016/17 relate to receivables due from third parties in relation to planned restructuring. This receivable is expected to be fully settled during 2018/19 and is therefore shown within note 14.

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 13. Stocks

	2018 £'000	2017 £'000
Spare parts and consumables	12,217	16,059

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

### 14. Debtors

	2018 £'000	2017 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	57,202	47,211
Provision on trade debtors	(500)	(176)
Amounts owed by group undertakings	695	1,475
VAT	21,416	13,318
Other debtors	1,779	1,826
Prepayments and accrued income	47,747	20,997
Deferred tax	9,608	8,561
	<u>137,947</u>	<u>93,212</u>

Included within prepayments and accrued income above is the remaining balance for planned restructuring receipts referred to in note 12 of £7.9m.

	Note	£'000
<b>Deferred tax asset</b>		
At 1 April 2017		8,561
Credit to the profit and loss account	9	1,047
At 31 March 2018	14	<u>9,608</u>

The deferred tax asset consists of the following amounts:

	2018 £'000	2017 £'000
Capital allowances in excess of depreciation	(1,537)	3,189
Other timing differences	11,145	5,372
Deferred tax asset	<u>9,608</u>	<u>8,561</u>

During the year beginning 1 April 2018, the net reversal of deferred tax assets is expected to increase the charge to corporation tax for the year by £527,000, mainly due to depreciation, capital allowances and capital grant amortisation.

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 15. Cash at bank and in hand

	2018 £'000	2017 £'000
Bank deposits	234,977	245,526

Cash and cash equivalents include ring-fenced cash of £205.4m (2017: £211.9m). Under the terms of the franchise agreement, the company can only distribute cash either up to the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratios at the balance sheet date.

### 16. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	56,829	67,889
Amounts owed to group undertakings	9,317	8,691
Group tax relief	1,918	9,758
Other tax and social security	7,648	6,993
Other creditors	26,343	25,313
Accruals and deferred income	323,410	274,789
	425,465	393,433

Amounts owed to group undertakings relate primarily to charges owed to First Rail Holdings Limited. Payment terms on all intercompany transactions are immediate. Accrued and deferred income has increased year on year due primarily to the timing of the franchise premium payments to the DfT, as referenced in the Strategic Report due to changes in several infrastructure and rolling stock assumptions since the franchise was let there will be an adjustment to the franchise payment expected to be settled in 2018/19.

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

	Legal & Other £'000	Total £'000
At 1 April 2017	8,361	8,361
Charged to the profit and loss account	7,191	7,191
Utilised in the year	(3,946)	(3,946)
Transfer from provisions greater than one year	15,658	15,658
At 31 March 2018	27,264	27,264

Provisions for liabilities and charges falling due with one year relate to planned restructuring £17.3m, rolling stock dilapidations £7.2m and property dilapidations £2.8m due within one year.

The utilization of £3.9m represents payments made against the prior year provision in the current year.

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

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

	Legal & Other £'000	Total £'000
At 1 April 2017	21,281	21,281
Transfer to provisions less than one year	(15,658)	(15,658)
At 31 March 2018	<u>5,623</u>	<u>5,623</u>

During 2015/16 a provision greater than one year was established relating to planned restructuring at specific engineering depots arising from the substantial fleet upgrade. The new Intercity Express trains will not be maintained by the company. The value of this provision increased during 2016/17 to £13.5m. This provision has been calculated based on the number of colleagues involved and the potential obligation this creates. The balance of £13.5m was partially offset by the long-term receivable balance of £9.0m, Note 12. During 2017/18 this restructuring provision is now being utilised and is expected to be fully utilised during 2018/19 and the balance has been transferred to provisions less than one year. The remaining provision of £5.6m relates to rolling stock dilapidations, which is expected to be fully utilised by 31 March 2020.

### 19. Called up share capital

	2018 £	2017 £
<b>Authorised</b>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<b>Allotted, called up and fully paid</b>		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>

### 20. Dividend

Dividend distribution to the company shareholder First Rail Holdings Limited is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company shareholders. During 2017/18 a final dividend was paid to First Rail Holdings Limited of £40.0m (2017: Nil), the company's immediate controlling entity. No interim dividend was paid during the year (2017: £30.0m).

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 21. Commitments

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

	2018 £'000	2017 £'000
Contracted for but not provided	101,681	86,098

Capital commitments primarily relate to the exam schedule on our train vehicles, fleet depot development and car park expansion programmes.

### Operating leases

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

	2018 £'000	2017 £'000
Plant and machinery	1,061	651
Track and station access	103,120	98,990
Hire of rolling stock	110,636	61,091
Other assets	1,706	2,306
	216,523	163,038

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:

	2018 £'000	2017 £'000
Within one year	521,485	270,085
In the second to fifth years inclusive	414,877	500,981
After five years	-	-
	936,362	771,066

Included in the above commitments are contracts held with Network Rail for access to the railway infrastructure track, stations and depots of £235.1m (2017: £205.5m). Commitments also exist to lease rolling stock of £695.6m (2017: £560.8m). Following the DfT's decision in the year to exercise a one-year extension to the franchise, operating lease commitments have increased year on year to reflect the investment in new trains.



# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 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 2018 was £0.4m (2017: £0.4m).

##### 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 £15.7m.

The scheme is valued triennially, when the cost of future service is calculated and the funding position established. The last valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle in respect of the costs used in these financial statements. A draft actuarial valuation at 31 December 2016 was completed during 2017 and there is a legal obligation to finalise the valuations and schedules of contributions before the statutory deadline of 31 March 2018. Discussions with the Pensions Regulator, and other stakeholders, in relation to the Pensions Act valuation for all Railway Pension Schemes for the Train Operating Companies are still ongoing and this process is likely to continue for some months. As a result, the Regulator has asked that the Pensions Act valuation is not completed until matters are all agreed. Until the valuation is complete, it will not be possible to determine future investment strategy and cash contributions. The actuarial valuation was updated for 31 March 2018; at this date the market value of the scheme's assets totalled £889m. The actuarial value of these assets was sufficient to cover 64% (2017: 68%) 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% (2017: 8.04%) for employees and 12.06% (2017: 12.06%) for the employer.

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

##### Financial assumptions

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

	2018	2017
Rate of increase in salaries	3.30%	3.35%
Rate of increase of pensions in payment	2.05%	2.00%
Rate of increase of pensions in deferment	2.05%	2.00%
Discount rate	2.70%	2.80%
Inflation assumption - RPI	3.05%	3.10%
Inflation assumption - CPI	2.05%	2.00%

##### Mortality assumptions

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

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 22. Pension liability (continued)

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

	2018 £'000	2017 £'000
Equities	86,300	97,870
Property	19,200	29,070
Cash Plus	783,200	741,140
Other	-	1,550
	<u>888,700</u>	<u>869,630</u>

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

### Reconciliation of movements

	Assets £m	Liabilities £m	Shared Cost £m	Franchise Impact £m	Net £m
<b>At 1 April 2016</b>	<b>735.8</b>	<b>(980.0)</b>	<b>97.6</b>	<b>146.6</b>	<b>-</b>
<b>Income Statement</b>					
<b>Operating</b>					
Service cost	-	(49.0)	19.6	12.1	(17.3)
Admin cost	-	(0.8)	-	-	(0.8)
<b>Total Operating</b>	<b>-</b>	<b>(49.8)</b>	<b>19.6</b>	<b>12.1</b>	<b>(18.1)</b>
<b>Financing</b>	<b>27.3</b>	<b>(35.4)</b>	<b>3.3</b>	<b>4.8</b>	<b>-</b>
<b>Total Income Statement</b>	<b>27.3</b>	<b>(85.2)</b>	<b>22.9</b>	<b>16.9</b>	<b>(18.1)</b>
<b>Amounts paid to/(from) scheme</b>					
Employer contributions	17.7	-	(7.1)	7.1	17.7
BRASS matching contributions	0.4	-	-	-	0.4
Employee contributions	12.1	-	(4.8)	(7.3)	-
Benefits Paid	(25.4)	25.4	-	-	-
<b>Total</b>	<b>4.8</b>	<b>25.4</b>	<b>(11.9)</b>	<b>(0.2)</b>	<b>18.1</b>
<b>Expected closing position</b>	<b>767.9</b>	<b>(1,039.8)</b>	<b>108.6</b>	<b>163.3</b>	<b>-</b>
<b>Gains/(loss)</b>					
Change in actuarial assumptions	-	(258.3)	103.2	155.1	-
Return on assets in excess of discount rate	101.7	-	(40.7)	(61.0)	-
Experience	-	17.5	(6.7)	(10.8)	-
<b>Total</b>	<b>101.7</b>	<b>(240.8)</b>	<b>55.8</b>	<b>83.3</b>	<b>-</b>
<b>At 31 March 2017</b>	<b>869.6</b>	<b>(1,280.6)</b>	<b>164.4</b>	<b>246.6</b>	<b>-</b>

# First Greater Western Limited

## Notes to the financial statements (continued) Year ended 31 March 2018

### 22. Pension liability (continued)

#### Reconciliation of movements

	Assets £m	Liabilities £m	Shared Cost £m	Franchise Impact £m	Net £m
<b>At 1 April 2017</b>	<b>869.6</b>	<b>(1,280.6)</b>	<b>164.4</b>	<b>246.6</b>	<b>-</b>
<b>Income Statement</b>					
<b>Operating</b>					
Service cost	-	(60.5)	24.2	20.6	(15.7)
Admin cost	-	(2.3)	-	-	(2.3)
<b>Total Operating</b>	<b>-</b>	<b>(62.8)</b>	<b>24.2</b>	<b>20.6</b>	<b>(18.0)</b>
<b>Financing</b>	<b>24.4</b>	<b>(35.1)</b>	<b>4.3</b>	<b>6.4</b>	<b>-</b>
<b>Total Income Statement</b>	<b>24.4</b>	<b>(97.9)</b>	<b>28.5</b>	<b>27.0</b>	<b>(18.0)</b>
<b>Amounts paid to/(from) scheme</b>					
Employer contributions	17.6	-	(7.1)	7.1	17.6
BRASS matching contributions	0.4	-	-	-	0.4
Employee contributions	11.8	-	(4.7)	(7.1)	-
Benefits Paid	(28.5)	28.5	-	-	-
<b>Total</b>	<b>1.3</b>	<b>28.5</b>	<b>(11.8)</b>	<b>-</b>	<b>18.0</b>
<b>Expected closing position</b>	<b>895.3</b>	<b>(1,350.0)</b>	<b>181.1</b>	<b>273.6</b>	<b>-</b>
<b>Gains/(loss)</b>					
Change in actuarial assumptions	-	(26.8)	10.7	16.1	-
Return on assets in excess of discount rate	(6.6)	-	2.6	4.0	-
Experience	-	(13.4)	6.2	7.2	-
<b>Total</b>	<b>(6.6)</b>	<b>(40.2)</b>	<b>19.5</b>	<b>27.3</b>	<b>-</b>
<b>At 31 March 2018</b>	<b>888.7</b>	<b>(1,390.2)</b>	<b>200.6</b>	<b>300.9</b>	<b>-</b>

### 23 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 8<sup>th</sup> Floor, The Point, 37 North Wharf Road, Paddington, London, W2 1AF.