Company Registration No. 05113733

# First Greater Western Limited

## Annual Report and Financial Statements

## For the year ended 31 March 2022

# First Greater Western Limited
# Annual Report and Financial Statements for the year ended 31 March 2022

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# First Greater Western Limited
# Officers and professional advisers

**Directors**

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Clive Burrows
Hugh Clancy
Mark Hopwood
Stephen Montgomery
Michael Nelson
Duncan Rimmer
Richard Rowland

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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

First Greater Western Limited ("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, as well as operating Heathrow Express services on behalf of Heathrow Airport Limited.

### Review of the business

At the start of the pandemic the Government transitioned the contracted part of the industry to a fee for delivery based model (under the Emergency Measures Agreement), rather than the previous system under which operators undertook considerable revenue and cost risk. The UK's passenger rail contracting system is currently undergoing a transition to a new structure (National Rail Contracts (NRCs)) which is intended to formalise this change going forward, with operators more heavily incentivised to improve passenger service metrics and whilst having a lower risk/lower reward financial profile.

The year ended 31 March 2022 was the second year of operation of First Greater Western Limited's (FGW's) third consecutive direct award franchise (DA3) and the second full year of operating under the Emergency Measures Agreement (EMA) which was signed with the Department for Transport (DfT) on 29 March 2020. The EMA initially ran for 7 Rail Periods and was put in place to mitigate the financial risk of the Coronavirus Pandemic, and to ensure railway services continued to operate. Following a series of extensions, the EMA and the underlying DA3 franchise continued in operation until 25 June 2022. The NRC commenced at that point for a minimum of 3 years and a maximum of 6 years. FGW is the third FirstGroup Train Operating Company (TOC) to enter an NRC following South Western Railway and Trans Pennine Express which entered into NRCs in May 2021.

In line with the wider UK rail industry, passenger volumes in our businesses are growing but have not yet returned to pre-pandemic levels, with the industry as a whole experiencing passenger numbers at around 75% of pre-pandemic levels. Although the leisure market has recovered strongly, key commuter flows and especially those into London are still behind December 2019 levels. This is highlighted by lower season ticket sales for those commuting, particularly to London. These factors have not adversely impacted FGW's financial performance under the EMA as revenue risk was transferred to the DfT.

FGW continued its profitable performance in 2022, although lower than previous years. The company made an operating profit of £30.5m (2021: £39.5m), a proportion of which was related to pre-EMA transactions. Turnover was £1,372.3m (2021: £1,349.8m). Passenger receipts grew by 248% (2021: a fall of 83.6%) over the year (2022: £583.6 versus 2021: £167.8m), with the improvement caused by the easing of the worst of the pandemic conditions. As in 2021, the lower than usual revenues were mitigated by the revenue subsidy received under the EMA from the DfT of £674.1m (2021: £1,088.4m), a decrease of 37.9%, as less subsidy was required due to the increased passenger receipts.

Net assets at 31 March 2022 were £27.8m (2021: £33.1m). Although FGW is in a net current liabilities position of £36.1m at 31 March 2022 (2021: net current assets of £47.5m), current liabilities include £82.1m of deferred income and capital grants that will not require cash to extinguish or settle. Further, following the company entering the NRC in June 2022, the company has returned to a net current asset position as the minimum 3 year life of the NRC allowed the reclassification of deferred income and capital grants from current to non-current.

### Current trading and the future

FGW and FirstGroup have long advocated for a more sustainable balance of risk and reward for all parties which would underpin a longer-term approach to the railway with passengers at its centre. We welcomed the Government's Williams-Shapps Plan for Rail in May 2021, which aims to put the expertise, innovation and experience of private sector rail operators at the heart of the new model for providing efficient, reliable and high quality services for passengers in the coming years. In the Queen's Speech on 10 May 2022, it was noted that the Government will improve transport across the United Kingdom, delivering safer, cleaner services and enabling more innovations. Legislation will be passed to modernise rail services and improve reliability for passengers.

On 9 June 2022, the DfT launched a public consultation on the primary legislative changes required to deliver structural reforms for the railways. The consultation is focused across 3 key areas:

**Current trading and the future (continued)**

- The first is on the establishment of Great British Railways, including its proposed functions and duties and how the DfT proposes to legislate and work with stakeholders to enable Great British Railways to become the single guiding mind for the railways.
- The second is focused on how the DfT will ensure clear accountabilities in the rail sector through a new governance framework, including the regulator's role in providing independent scrutiny and challenge.
- The third centres on reform of wider industry structures and processes that are needed to deliver transformation of the railways and a new industry culture, including a new Passenger Champion role for Transport Focus and proposals for open data sharing.

The rail sector is embarking on a period of reform necessary to modernise industry practices and secure the long-term future of the industry. A number of trade unions have announced plans for industrial action at TOCs across the UK and at Network Rail. Notwithstanding the fact that under the management fee-based contracts operators bear no revenue risk and limited cost risk, prolonged industrial action presents enormous challenges for everyone, and most importantly for our passengers who rely on these services to go about their daily lives. We will work closely with our industry partners to do all that we can to minimise the effects of disruption for our passengers.

Meanwhile, FGW has continued to generate satisfactory returns despite challenging industry conditions and 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. It is, however, important to note that the profitability for the year ended 31 March 2022 was enhanced by the favourable resolution of a number of historical claims.

We continue to work closely with Network Rail, the DfT, local authorities and all industry partners to deliver projects while minimising disruption for passengers.

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 continued to make further progress towards ensuring we are always operating to the highest standards.

At stations we are delivering new and upgraded customer information screens, and improved waiting, retail and interchange facilities.

**Responsible partnerships with our customers and communities**

FGW was pleased to be part of the successful launch of the Elizabeth Line in May 2022, which improves connections into Central and East London from Paddington. We continue to work with TfL to ensure passengers travelling on the Elizabeth Line have an enjoyable experience.

Electrification across parts of our route have contributed to a reduction in greenhouse gas emissions per passenger km in recent years. We are also preparing for tri-mode trains to begin to replace some of the diesel powered fleet on the North Downs line.

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. FGW moved into its second year of supporting the 'Rail to Refuge' scheme, providing free train travel for women or men and their families who are fleeing domestic abuse and need to get to a place of safety. Significantly, 64.4% of survivors said they would not have been able to travel to safety without a free ticket.

# First Greater Western Limited
# Strategic report (continued)

### Our priorities and outlook

We remain focused on working with our industry partners to play our part in delivering a sustainable railway and to regrow our customer base, a base which we expect to be different from what it was prior to the pandemic.

Coronavirus continues to impact the operations of FGW, primarily through employee absence. We expect that coronavirus will remain a risk to the business for the foreseeable future and we will continue to adapt our risk mitigation measures and manage the impacts as necessary.

The National Union of Rail, Maritime and Transport Workers (RMT) trades union held 3 days of strike action during June 2022. It was the first union representing FGW employees to ballot its members. Subsequently, The Associated Society of Locomotive Engineers and Firemen (ASLEF) and The Transport Salaried Staffs' Association (TSSA) have now also balloted their members regarding pay, conditions and job security. Strike mandates are generally valid for a period of 6 months which means that FGW passengers may face further disruption this financial year.

Economic sanctions on Russia following their invasion of Ukraine have had an adverse impact on the cost of diesel and electricity used for traction and other operational purposes. We expect these costs to remain high for the foreseeable future.

On 8 May 2021, cracks were found in our class 800 and 802 fleet. This resulted in the majority of these fleets being temporarily withdrawn from service. Following a thorough risk assessment, an ongoing inspection scheme was put in place which enabled most of the fleet to be returned to service during the year ended 31 March 2022. Remedial actions to fix the cracks will be completed over a number of years. FGW is using the mechanisms within the relevant contracts to minimise our commercial risk arising from these defects.

Our work with Network Rail continues to be important to delivering consistent and reliable services to our customers, 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. We believe this close relationship will continue through the changes the industry will experience over the coming years.

### Key Performance Indicators

Train operating performance decreased during the year ended 31 March 2022 compared to 2021 with our public performance measure (PPM) moving annual average score standing at 89.4% (2021: 94.7%). Although a reduction on the prior year result, it was marginally up on the target for the year. The reasons for the decline included the reintroduction of many services following reductions in 2020, operational staff availability due to the pandemic and the impact of track and trace notifications requiring staff to self-isolate, training backlogs and an increase in external incidents including trespass. Going forward under the NRC, the lead measure will be Time to 3 Minutes (T-3) which is the percentage of recorded station stops called at within 3 minutes of the planned time.

FGW's average headcount in the year decreased to 6,281 (2021: 6,370), a decrease of 1.4%. Given the level of patronage, there has been focus on replacing critical roles. During the year, FGW participated in the industry wide Voluntary Severance Scheme (VSS). This programme saw 98 employees leave the business prior to the end of the programme on 31 March 2022.

The performance scores received for FGW's performance under aspects of the contract with the DfT are an important KPI for FGW as the scores determine the proportion of the fee income received. FGW engages with the DfT to understand the scores received and to implement any changes necessary in order to improve our financial performance.

### 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**

Since the start of the pandemic, our priority, above all else, has been to safeguard the health and wellbeing of our customers and colleagues as we continued to run vital services. We have followed all appropriate public health authority guidance, using risk assessment to underpin our approach, and ensured we have adequate safety and protective equipment in place. We have pioneered best practice in areas such as enhanced cleaning and decontamination of vehicles, depots, and stations.

The wellbeing of our colleagues will always be of paramount importance, and we are grateful for the efforts of everyone and the steps they have taken to manage our response throughout the pandemic.

Our approach to the pandemic evolved quickly from its onset and matured with a robust management framework established within FGW and overseen at FirstGroup level. This included working groups that fed up through the management structure, which then in turn informed a regular review process with each function.

We have drawn on our preparedness and increased agility to deal with the current landscape, implementing more stringent controls at short notice while keeping colleagues and customers safe and trains operating.

***Approach***
We continued to adapt to the new challenge in the year of the Omicron variant, in particular the need to respond to the wider deviation of measures and rules across England and Wales and the speed with which these changed. Confirmed cases and self-isolations peaked in January 2022, which resulted in some operational impacts, which were managed both on a day-to-day basis and through revised timetabling.

***Controls***
Our on-train and workplace controls focused on social distancing and continuing the industry-leading enhanced cleaning regimes that were developed, using new antiviral products and disinfectants to sanitise high touchpoint areas at increased frequencies. We also improved ventilation and introduced the use of CO2 monitors in offices. We used our specially designated and trained 'Covid Marshals' in depots to ensure compliance with the Covid-19 control measures in place. We encouraged the use of face-coverings and good hand hygiene as required by government guidance as key measures.

***Colleague Impact***
Covid-19 case numbers fluctuated throughout the year, mirroring the national picture. We promoted Covid-19 vaccination uptake and use of testing with our employees, alongside increasing our mental health and general wellbeing support resources.

***Wider impacts***
Changes in traffic levels, customer demand and lower than normal staff turnover had a significant positive impact on customer injury incident rates through the pandemic. We are now proactively managing the rising safety risks of increased traffic levels, customers returning and increases in the number of new drivers entering service with us.

***The way ahead***
As we learn to live with the pandemic, we continue to adapt to government guidance, emerging evidence and feedback from our customers and people, through a risk-based approach to Covid-19 management. Lessons learnt and more efficient ways of working are being adopted as business as usual, such as enhanced cleaning and ventilation, contactless payment and travel planning. We have kept a regular information flow and engagement with colleagues, supplemented by updates from the Group.

**Safety**

We continued to prioritise reductions in customer injuries on our trains and stations where we know slips, trips and falls are the most common cause of injury. Our station staff are focused on identifying and assisting vulnerable customers where possible. This applies especially for leisure journeys, elderly customers and those who travel less frequently. Engaging publicity campaigns were developed that were themed around known risks such as not using handrails, minding gaps between trains and platforms and not rushing.

**Safety (continued)**

The elimination of Signals Passed at Danger (SPAD) risk continues to be at the forefront of management activities, with monitoring arrangements rigidly applied to both supporting performance metrics and the implementation of safety plans.

We have worked closely with the various authorities in the investigations into the Salisbury train collision between a South Western Railways train and a FGW train on 31 October 2021. The Rail Accident Investigation Branch issued their interim report on 21 February 2022, and whilst the investigation remains ongoing, initial findings suggested that rail head contamination was evident and poor wheel adhesion to the track was a factor. We will continue to assist the authorities as required.

Our response to the pandemic and other safety activities demonstrate that safety is an ever-present focus for FGW. We are constantly striving for ways to build on our achievements and make the safest possible environment for customers, employees and all those who interact with our business.

**Contracted business**

The company has a contracted business and our success is dependent on our ability to secure and renew contracts on profitable terms, effectively manage affiliates, deliver under contract terms and avoid termination. Additionally, the ability of FGW to achieve performance targets is dependent on our ability to exceed passenger performance metrics laid out in the NRC. Failure to do so would result in reduced revenue and profitability and/or have a negative impact on delivering our strategic objectives.

The contract structure is now concession-based with a fixed management fee plus performance incentives resulting in a far better balance of risk and reward. Furthermore, we have the extensive operational expertise needed to meet requirements for the contract performance incentives. The members of our team who, in conjunction with First Rail Holdings Limited (First Rail) colleagues, focus on DfT negotiations and ensure that future commitments to UK rail will have an appropriate balance of potential risks and rewards for the company. The transition from franchising to contracts has led to a better balance of risk and reward via reduced revenue risk, minimal cost and contingent capital risk, and will continue to provide more consistent cash generation each year.

FGW and the Group have the operational structure and expertise to exceed passenger delivery against performance targets. Additionally, future contracts now commit to a minimum of two-years awards and are expected to be longer allowing for better financial planning.

**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 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) could result in significant penalties and could have adverse impact on consumer confidence in our business.

We have cyber security 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

**Political and regulatory issues (continued)**

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. On our behalf, 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, potentially, 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 may be 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 2021/22 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 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, the Railways Pension Scheme 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 DfT 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 FirstGroup has been engaged with the industry-wide project to consider the funding of the Scheme.

Management continues to believe that an approach that meets TPR's 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 and the NRC, FGW is not responsible for any residual deficit at the end of a franchise.

# First Greater Western Limited
# Strategic report (continued)

**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.

**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.

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.

**Traction 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 operational and financial performance.

To mitigate the risks of rising fuel costs, with agreement from DfT, the company may work with FirstGroup plc to 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 measures.

With the increase in network electrification, our EC4T (Electric Current for Traction) costs have risen as a component of our overall traction costs.

**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. 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.

### Environment and climate change (continued)

In conjunction with First Rail, we are supporting the UK Government's target to remove all diesel-only trains from service by 2040. We continue to work with government and partners to support further electrification of Britain's rail network and implement alternative technologies such as battery power to help achieve zero emission trains.

### Companies Act 2006 section 172 statement

Section 172 of the Companies Act 2006 requires the directors to promote the success of the company for the benefit of members as a whole, having regard to the interests of stakeholders in their decision-making. This statement sets out how the directors have had regard to the matters set out in section 172 when performing their duties:

The Board considers its key stakeholders are:

- Customers
- Shareholders (First Rail Holdings Limited and ultimately FirstGroup plc)
- Government and political stakeholders
- Our people
- Communities
- Strategic partners and suppliers

The Board believes that strong engagement, collaboration and dialogue are critical to the effectiveness of our long-term relationships with key stakeholders. The Board has adopted the FirstGroup processes, policies and governance structures that are relevant to the company and which contribute to the company's development and sustainability. The company also has an independently chaired Advisory Board, the membership of which comprises certain key stakeholders. The Advisory Board meets regularly during 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 commitments 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 of Ethics 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)

**Engaging ethically (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
- Periodic all employee calls to update FGW employees on our business and to achieve a common awareness of the financial and economic factors affecting the performance of the company
- 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

## First Greater Western Limited
## Strategic report (continued)

The Board is mindful of its obligations under section 172 of the Companies Act 2006 to have regard to the views and interests of wider stakeholders when taking decisions. Two examples of how these considerations influenced the Board's decisions during the financial year is set out below:

- Increased the number of trained mental health first aiders in the business to support mental health and wellbeing; and
- Changed the "Your Voice" platform to enable a shortening of the process from gathering the opinions of our colleagues to the production of the analysed results. This shortening has enabled managers to understand any areas of remediation required and to put plans in place within a sensible timeframe.

Approved by the Board of Directors
And signed on behalf of the Board

Duncan Rimmer
Director
29 July 2022
Milford House
1 Milford Street
Swindon
Wiltshire, SN1 1HL

# First Greater Western Limited
# Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2022. A review of the business and the future developments are set out in the Strategic report in accordance with s414C of the Companies Act 2006.

### Directors

The directors who held office throughout the year (except as noted) and to the date of signing of these financial statements were as follows:

Directors who held office throughout the year:

Sally Bennett
Clive Burrows
Hugh Clancy
Mark Hopwood
Stephen Montgomery
Michael Nelson
Duncan Rimmer

*Richard Rowland was appointed as a director on 26 January 2022. Matthew Golton resigned as a director on 1 June 2021.*

### Statement of corporate governance arrangements

The company is a subsidiary of FirstGroup plc, a UK premium listed company that is subject to the UK Corporate Governance Code 2018 (the "Code"). In accordance with the Listing Rules, FirstGroup has included a detailed corporate governance report in its 2022 Annual Report and Accounts describing how FirstGroup has applied the Code's main principles and highlighting any non-compliance with the Code. The 2022 Annual Report and Accounts are available on FirstGroup's website (www.firstgroupplc.com).

As FirstGroup applies the Code throughout the Group, its corporate governance report also describes corporate governance at the subsidiary level. The company has not adopted any corporate governance code, however it has applied the principles of the UK corporate governance code adopted by FirstGroup plc.

The Code contains to a substantial extent principles and provisions that are concerned with the listed parent company only and which are therefore not applicable to the company. These particular principles and provisions of the Code are applied by FirstGroup on a comply or explain basis. They relate, for example, to the role of the FirstGroup board in engaging with shareholders, processes for board appointments, succession and evaluation, director remuneration and the role of the board's audit committee. Given the nature of the company, as a wholly owned subsidiary with no external shareholders, these elements of the Code are not applicable and so were not applied by the company. Other parts of the Code can be seen to apply to the Group as a whole, including the Code's focus on promoting long-term sustainable success and contributing to society and the Code's requirement that workforce policies and practices are consistent with the company's values.

#### *Subsidiary level governance framework*

The Board of FGW comprises eight directors and their role is to:

- Execute FGWs strategic direction
- Ensure the values and culture are 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

# First Greater Western Limited
# Directors' report (continued)

The Board of Directors include an Employee director, Sally Bennett, whose main responsibility is to bring the voice of the workforce to the boardroom.

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

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

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

**Financial matters**

The results for the year are given in the profit and loss account on page 21.

During the year ended 31 March 2022, the company made a dividend payment of £33.0m (2021: £19.0m) to First Rail Holdings Limited, the company's immediate controlling entity. The company will seek to pay a dividend based on the distributable reserves at 31 March 2022 during the current financial year. Dividends can be found in note 24.

*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.

**Engagement with customers, suppliers and other key stakeholders**

The Section 172 report contained within the Strategic Report on pages 10 to 12 outlines the primary ways in which FGW fosters its business relationships with its key stakeholders.

**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, although not to the extent it has impacted FGW in previous years.

**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 and maximum deposit limits with any single bank have been established. 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 NRC contains provisions to protect liquidity. This is demonstrated in cash and ring- fenced cash balances as set out in note 18. The company does not enter directly into any derivative financial instruments.

**Directors' indemnity**

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

# First Greater Western Limited
# Directors' report (continued)

### Employee involvement

Communication with employees is maintained 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. 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*

On 14 June 2022, FGW signed an agreement with the DfT for FGW to enter into a National Rail Contract (NRC) from 26 June 2022. The NRC has a core three-year term to 21 June 2025 with an option for the DfT to extend by up to three further years to June 2028. The financial structure that underpins the NRC has both the revenue risk and substantially all of the cost risk being transferred to the DfT. In return, FGW will receive a management fee for running the rail operations. In addition, FGW will receive a performance based fee provided it is successful in achieving certain targets. FGW's cost risk is limited to the non-eligibility of costs which the DfT may disallow where FGW has, for example, spent in excess of the budgeted amount, incurred costs where we have not followed our own internal processes, or where it is clear that FGW has not been a good and efficient operator.

*Significant going concern judgements*

The directors used the financial forecasts prepared to support the decision to enter the NRC as the basis for their assessment of the company's ability to continue as a going concern for the twelve months from the date that the financial statements are authorised for issue.

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

- Current cash balances and the timing of working capital flows, including performance payments; and
- The extent and likelihood of any non recoverable costs which may be incurred over the next 12 months

*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.

### Audit information

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

# First Greater Western Limited
# Directors' report (continued)

**Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment was passed at FirstGroup plc's Annual General Meeting on 27 July 2022.

**Post balance sheet events**

The EMA for DA3 was extended on 28 April 2022 to 25 June 2022.

On 14 June 2022, FGW signed an agreement with the DfT to enter a National Rail Contract (NRC). Similar to the EMA, FGW will earn a management fee and has the opportunity to receive additional amounts based on the achievement of certain performance targets. The NRC has a core three-year term to 21 June 2025 with an option for the DfT to extend by up to three further years to June 2028. Signing the NRC supports the continued operation by FGW of the separate Heathrow Express (HEX) Services Agreement which FGW operates on behalf of Heathrow Airport Limited. FGW will continue to operate HEX for an agreed fee with contractual protection mechanisms and no passenger revenue risk.

On behalf of the Board

Duncan Rimmer
Director
29 July 2022
Milford House, 1 Milford Street
Swindon
Wiltshire
SN1 1HL

# First Greater Western Limited
## Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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 enable them to ensure that the financial statements comply with the Companies Act 2006.

Approved by the Board of Directors
And signed on its behalf

Duncan Rimmer
Director
29 July 2022
Milford House, 1 Milford Street
Swindon
Wiltshire
SN1 1HL

# Independent auditors' report to the members of First Greater Western Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, First Greater Western Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2022; Profit and Loss Account, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 12 to the financial statements, we have provided no non-audit services to the company in the period under audit.

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- reviewing management's forecasts for the period to 31 March 2024 and the key assumptions underlying the forecasts;
- reviewing the National Rail contract entered into with the DfT with effect from 26 June 2022 to understand the committed and contracted support that will be provided by the DfT; and
- reviewing the disclosures within the financial statements to confirm that the going concern key assumptions are adequately disclosed by the directors.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

## Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

## Responsibilities for the financial statements and the audit

## Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

## Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of health and safety regulations under the Health and Safety At Work Act and non-compliance with The Railway Safety Levy Regulations 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of manual journal entries to manipulate financial performance and management bias in determining significant accounting estimates. Audit procedures performed by the engagement team included:

- Reviewing meeting minutes of management, board of directors and any other committees of the board;
- Reviewing the claims provision in respect of actual and potential claims and making enquiries of management regarding any unprovided claims;
- Obtaining supporting evidence for the significant assumptions and judgements made by management, particularly in respect of pensions accounting and contract and franchise accounting;
- Identifying and testing journal entries on a sample basis, in particular those used to recognise revenue; and
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

## Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Other required reporting

## Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Kenneth Wilson

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
29 July 2022

# First Greater Western Limited
# Profit and Loss Account
# For year ended 31 March 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Turnover** | 5 | 1,372,293 | 1,349,785 |
| Operating costs | 6 | (1,381,584) | (1,310,249) |
| Other operating income | 7 | 39,819 | - |
| **Operating profit** | | 30,528 | 39,536 |
| Interest receivable and similar income | 11 | 468 | 353 |
| Interest payable and similar expenses | 11 | - | (16) |
| Net interest receivable | | 468 | 337 |
| **Profit on ordinary activities before taxation** | 12 | 30,996 | 39,873 |
| Tax charge on profit on ordinary activities | 13 | (3,290) | (8,584) |
| **Profit for the Financial Year** | | 27,706 | 31,289 |

All activities relate to continuing operations.

# Statement of Comprehensive Income
# For year ended 31 March 2022

| | Notes | £'000 | 2022 £'000 | £'000 | 2021 £'000 |
|---|---|---|---|---|---|
| Profit for the financial year | | | 27,706 | | 31,289 |
| Actuarial gain/(loss) due to scheme assets and liabilities | 26 | 322,800 | | (159,500) | |
| Actuarial (loss)/gain due to rail franchise adjustment and shared cost | 26 | (322,800) | | 159,500 | |
| Total other comprehensive income | | | - | | - |
| Total comprehensive income for the year | | | 27,706 | | 31,289 |

# First Greater Western Limited
# Balance Sheet
# As at 31 March 2022

| | Notes | £'000 | 2022<br>£'000 | £'000 | 2021<br>£'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 14 | | 1,832 | | 37 |
| Tangible assets | 15 | | 62,062 | | 84,663 |
| | | | 63,894 | | 84,700 |
| **Current assets** | | | | | |
| Stocks | 16 | 12,106 | | 10,353 | |
| Debtors | 17 | 128,935 | | 101,080 | |
| Cash at bank and in hand | 18 | 249,411 | | 312,609 | |
| | | 390,452 | | 424,042 | |
| **Creditors: amounts falling due within one year** | 19 | (406,649) | | (371,121) | |
| **Provisions for liabilities and charges: amounts falling due within one year** | 20 | (19,867) | | (5,445) | |
| **Net current (liabilities)/assets** | | | (36,064) | | 47,476 |
| **Total assets less current liabilities** | | | 27,830 | | 132,176 |
| **Creditors: amounts falling due after one year** | 21 | | - | | (89,220) |
| **Provisions for liabilities and charges: amounts falling due after more than one year** | 22 | | - | | (9,832) |
| **Pension liability** | 26 | | - | | - |
| **Net assets** | | | 27,830 | | 33,124 |
| **Capital and reserves** | | | | | |
| Called up share capital | 23 | | - | | - |
| Profit and loss account | | | 27,830 | | 33,124 |
| **Total shareholder's funds** | | | 27,830 | | 33,124 |

The accompanying notes on pages 24 to 46 form an integral part of these financial statements.
The financial statements of First Greater Western Limited, registered number 05113733, on pages 21 to 46 were approved by the Board of Directors on 29 July 2022 and were signed on its behalf by:

Duncan Rimmer
Director

# First Greater Western Limited
# Statement of Changes in Equity
# Year Ended 31 March 2022

| | Notes | Called up - share capital £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|
| **Balance at 1April 2020** | | - | **20,835** | **20,835** |
| Total comprehensive income for the financial year | | - | 31,289 | 31,289 |
| Dividend payments | 24 | - | (19,000) | (19,000) |
| **Balance at 31 March 2021** | | - | **33,124** | **33,124** |
| Total comprehensive income for the financial year | | - | 27,706 | 27,706 |
| Dividend payments | 24 | - | (33,000) | (33,000) |
| **Balance at 31 March 2022** | | - | **27,830** | **27,830** |

**1. General information**

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 3.

**2. Statement of compliance**

The financial statements of First Greater Western Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

**3. Principal accounting policies**

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

**(a) Basis of preparation**

The financial statements have been prepared on a going concern basis, under a historical cost convention, modified to include certain items at fair value in accordance with FRS 102.

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) Going concern assessment**

The company currently meets its day-to-day working capital requirements through its cash balances. The company's business modelling, forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is able to operate within the level of its current cash balances. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

**(c) Exemptions for qualifying entities under FRS 102**

The company meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemptions in relation to share-based payments, financial instruments, intra-group transactions, key management personnel and presentation of a cash flow statement.

The company is included in the consolidated financial statements of FirstGroup plc which can be obtained on request from its registered office 395 King Street, Aberdeen AB24 5RP.

## 3. Principal accounting policies (continued)

### (d) 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 |

<u>Assets under construction</u>

Assets under construction are stated at cost. These assets are not depreciated until they are available for use

### (e) Intangible fixed assets and amortisation

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 |

### (f) 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.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

### (g) Government grants and subsidies

Amounts receivable for services contracted under the contracts with the DfT are included in turnover. Government grants are accounted for under the accruals model as permitted by FRS 102. Grants relating to assets are recognised in "other operating income" within profit or loss on a systematic basis over the expected useful life of the assets concerned. All other grants are recognised in "other operating income" within profit or loss in the same period as the related expenditure. Other than as disclosed in notes 5 and 7, the company has not directly benefited from any other forms of government assistance.

### (h) 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.

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

**(i) 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 and Section 12 of FRS 102. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method

**(j) 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.

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

**(k) Taxation**

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

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

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

**(l) Pension costs**

**Company specific schemes**

The company participates in the Railways Pension Scheme (RPS), which is an industry-wide defined benefit scheme. The company is obligated to fund the relevant section of the scheme over the period for which the franchise is held. The full liability is recognised on the balance sheet, which is then reduced by a franchise adjustment so that the net liability reflects the company's obligations to fund the scheme over the franchise term, subject to any changes in the schedule of contributions following a statutory valuation.

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.

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

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit credit 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 is presented separately 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 (see note 26) 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 financial statements.

**(m) Turnover**

Turnover (Revenue) is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business and is shown net of VAT where appropriate.

**Passenger revenue**

The company has one principal class of business, namely, the provision of passenger transport services. Passenger revenues primarily relate to ticket sales and is attributable to the company predominantly based on models of route usage, by the Railway Settlement Plan. Passenger revenue is recognised at both a point in time and over time, depending on the nature of the ticket purchased. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided

**Rail franchise subsidy receipts**

The company's turnover also includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Amounts receivable from the DfT are set out in the franchise agreement for each year of the franchise, but have been adjusted to reflect arrangements under the EMA. Net EMA funding including management and performance fees are recognised as revenue in rail franchise subsidy receipts as well, in line with other franchise subsidy receipts from the DfT.

**Other revenue**

The company recognises other revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity; and (e) when the specific criteria relating to each of the company's sales channels have been met.

Other revenue from non-passenger receipts includes Heathrow Express, train catering income, commission on ticket sales, rolling stock engineering services and other sundry income.

**(n) 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.

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

**(o) 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. Provisions 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.

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

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

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.

**4. 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.

**(a) Critical accounting judgements**

**Defined benefits pension arrangements**

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), which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer and 40% employee.

The company only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and the company is responsible for the funding of these sections while it operates the franchise. At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee. At each balance sheet date, a franchise adjustment is recognised against the FRS 102 net pension asset or liability to reflect that portion expected to pass to the next franchisee. As there is no requirement to make contributions to fund the current

**4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

**Defined benefits pension arrangements (continued)**

deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current franchisee.

In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the income statement. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the income statement, whilst changes in actuarial assumptions continue to be recognised through other comprehensive income.

The directors consider this to be the most appropriate interpretation of FRS 102 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise.

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.

The Pension Regulator (TPR) has been in discussions with the RPS (the Scheme) regarding the long-term funding strategy of the Scheme. Whilst TPR believed 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.

**Classification of current vs long term liabilities**

At 31 March 2022, the agreement for the new National Rail Contract (NRC) had not been signed, therefore all creditors were assumed to be falling due by the end of the DA3 franchise (31 March 2023). As the signing of the NRC is not considered to be an adjusting post balance sheet event, the liabilities are accordingly disclosed as current liabilities.

**(b) 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 and this support provided via the EMAs, was in place throughout the 2021/22 financial year. The EMAs transferred all revenue and cost risk to the government. FGW is paid a small management fee and has had the opportunity to receive performance based remuneration. The performance based fee for the full year is normally assessed 5 rail periods following

**Contract and franchise accounting (continued)**

the end of the financial year. Therefore, the performance revenue recorded for the year is management's best estimate of how the entity has performed against the DfT's performance criteria.

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. On 14 June 2022, FGW and the DfT entered into an NRC that commenced on 26 June 2022. Similar to an EMA, the NRC will provide FGW with a management fee and performance based fee. The DfT will have all of the revenue risk while FGW retains only limited cost risk. As a result of entering into the NRC, which runs for 3 years with up to 3 further optional years, the financial statements for the year ended 31 March 2022 have been prepared on the going concern basis.

## 5 Turnover

Turnover represents the amounts receivable for services supplied to customers during the year and includes amounts receivable for 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. In March 2020, FGW saw the introduction of the Emergency Measures Agreement (EMA) due to COVID-19. This EMA agreement which remained in place throughout 2020/21 and 2021/22 compensated FGW for the reduction in passenger receipts during the year, which as demonstrated in the table below was substantially reduced year on year. Under the EMA the DfT takes revenue and cost risk which is reflected in the subsidy. FGW is paid a fixed management fee to operate at agreed service levels, as well as a performance-based fee.

Other revenue from non-passenger receipts includes on train catering income, commission on ticket sales, rolling stock engineering services, Heathrow Express operating agreement and other sundry income.

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Passenger receipts | 583,600 | 167,808 |
| Revenue subsidy | 674,145 | 1,088,428 |
| Other revenue | 114,548 | 93,549 |
| | 1,372,293 | 1,349,785 |

## 6 Operating costs

| | Note | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|---|
| Raw materials and consumables | | 67,854 | 47,555 |
| Staff costs | 8 | 367,445 | 352,023 |
| Other external charges | | 250,767 | 252,070 |
| Rolling stock charges | | 491,509 | 494,971 |
| Track access charges | | 135,754 | 131,395 |
| Net franchise payments | | 28,436 | 30,532 |
| Grant amortisation releases | | - | (1,808) |
| Depreciation and other amounts written off tangible fixed assets and intangible assets | | 39,819 | 3,511 |
| | | 1,381,584 | 1,310,249 |

## 6 Operating costs (continued)

The higher cost of raw materials and consumables experienced during the year ended 31 March 2022 is linked to traction costs (higher energy prices and increased milage). Staff cost increases are linked to the additional passenger receipts and train miles, which drive increased working hours.

Franchise Payments include payments due under profit sharing arrangements with the DfT related to previous direct award franchises. Depreciation has increased in the year, key assets such as Exeter depot and Taunton station refurbishment amongst others are now complete, resulting in the commencement of depreciation on these projects. The assets are depreciated over the period from the date of completion to the end of the DA3 franchise (31 March 2023).

For the year ended 31 March 2022, the amortisation of government grants and grants from third parties has been re-presented in the profit and loss account and has been recorded as other operating income (see note 7) instead of as a credit to operating costs. For the year ended 31 March 2021, grant amortisation releases in operating costs included £1,808k with a further £1,807k of amortisation related to third party grants for capital projects which was included within net franchise payments.

## 7. Other operating income

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Government grants for capital projects | 7,888 | - |
| Third party grants for capital projects | 31,931 | - |
| | 39,819 | - |

Other operating income includes grant funding for capital projects from the government and third parties. For the year ended 31 March 2022, the amortisation of government grants and grants from third parties has been re-presented as other operating income within the profit and loss account. For the year ended 31 March 2021, grant amortisations were recorded as a credit to operating costs. During that year, grant amortisation releases from government grants within operating costs was £1,808k. There was a further £1,807k of amortisation related to third party grants which was included within net franchise payments (see note 6).

Amortisation from third party grants was high in the year ended 31 March 2022 due to the completion of capital projects (including Exeter depot and Taunton station refurbishment) which started the amortisation of the associated grants. The grants are amortised over the period from the date of completion to the end of the DA3 franchise (31 March 2023).

## 8. Employee numbers and costs

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

| | 2022 Actual Heads | 2021 Actual Heads | 2022 FTE Heads | 2021 FTE Heads |
|---|---|---|---|---|
| Traincrew including traincrew management | 3,599 | 3,785 | 3,457 | 3,661 |
| Maintenance | 989 | 971 | 976 | 961 |
| Customer service | 1,414 | 1,453 | 1,323 | 1,362 |
| Administration | 538 | 406 | 525 | 386 |
| | 6,540 | 6,615 | 6,281 | 6,370 |

The aggregate payroll costs of these persons were as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Wages and salaries | 312,623 | 299,345 |
| Social security costs | 33,004 | 31,558 |
| Other pension costs | 21,818 | 21,120 |
| | 367,445 | 352,023 |

## 9. Directors' remuneration

Certain directors (Clive Burrows, Hugh Clancy, Stephen Montgomery and Michael Nelson) 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:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Aggregate emoluments (excluding pension contributions) | 682 | 811 |

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.

## 9. Directors' remuneration (continued)

| | 2022 Number | 2021 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:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Aggregate emoluments | 355 | 272 |
| *Defined benefit scheme* | | |
| Accrued pension at end of year | 59 | 55 |
| Accrued lump sum at end of year | 30 | 28 |

During the year the highest paid director exercised share options and received shares under the FirstGroup long-term incentive plan.

## 10. Share-based payments

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 Financial Statements.

**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 £793,000 *(2021: £824,000) relating to equity-settled share-based payment transactions.*

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Total expense recognised in the profit and loss account | 793 | 824 |
| Contribution paid to First Rail Holdings Limited (parent company) | (793) | (824) |
| Credited to shareholders funds | - | - |

## 11. Interest

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Interest payable** | | |
| Interest payable | - | (16) |

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Interest receivable and similar income** | | |
| Bank interest | 468 | 353 |

## 12. Profit before taxation

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Profit before taxation is stated after charging/(crediting): | | |
| ***Auditors' remuneration*** | | |
| Audit fee for annual audit and audit related assurance services | 408 | 552 |
| Non-audit fee for other services | 7 | 7 |
| Cost of stock recognised as an expense | 61,783 | 45,557 |
| **Rentals payable under operating leases** | | |
| Plant and machinery | 260,517 | 260,464 |
| Other operating leases | 141,237 | 135,908 |
| Net rents receivable from property | (2,073) | (1,972) |

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 was £226.4m (2021: £206.2m). The 2021 audit fee includes £144k of charges relating to prior years and FGW's previous auditor.

## 13. Tax on profit

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Current taxation** | | |
| Group relief payable | 4,530 | 6,223 |
| Adjustment in respect of prior years | (1,057) | 2,360 |
| **Total current taxation** | 3,473 | 8,583 |
| **Deferred taxation** | | |
| Origination and reversal of timing differences | 1,627 | 1,261 |
| Effect of increase in tax rate on opening deferred tax balance | (2,606) | - |
| Adjustment in respect of prior years | 796 | (1,260) |
| | (183) | 1 |
| **Total tax charge on profit** | 3,290 | 8,584 |

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2021: 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:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Profit before tax | 30,996 | 39,873 |
| Profit multiplied by standard rate of corporation tax in the United Kingdom (19%) (2021: 19%) | 5,889 | 7,576 |
| *Factors affecting charge* | | |
| (Income not taxable) and expenses not deductible for tax purposes | (122) | (92) |
| Rate change on current year movement in timing differences | 390 | - |
| Prior year adjustments | (261) | 1,100 |
| Effect of increase in tax rate on opening deferred tax balance | (2,606) | - |
| Total tax charge | 3,290 | 8,584 |

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Deferred tax has been provided at 19% on temporary differences that are forecast to unwind prior to 1 April 2023. Deferred tax has been provided at 25% on temporary differences expected to unwind on or after that date.

## 14. Intangible assets

| | Computer software £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| At 1 April 2021 | 5,487 | 5,487 |
| Additions | 1,795 | 1,795 |
| At 31 March 2022 | 7,282 | 7,282 |
| **Accumulated amortisation** | | |
| At 1 April 2021 | 5,450 | 5,450 |
| Charge for year | - | - |
| At 31 March 2022 | 5,450 | 5,450 |
| **Net book value** | | |
| At 31 March 2022 | 1,832 | 1,832 |
| At 31 March 2021 | 37 | 37 |

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.

The entire net book value at the end of both 2022 and 2021 is comprised of assets under construction. For 2022, this primarily included projects for customer applications, driver advisory systems and inventory systems.

## 15. Tangible assets

| | Passenger carrying vehicle fleet £'000 | Other plant and equipment £'000 | Assets under construction £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2021 | 21,714 | 189,125 | 70,705 | 281,544 |
| Additions | - | - | 17,218 | 17,218 |
| Transfers | 2,677 | 69,383 | (72,060) | - |
| At 31 March 2022 | 24,391 | 258,508 | 15,863 | 298,762 |
| ***Accumulated depreciation*** | | | | |
| At 1 April 2020 | 18,586 | 178,295 | - | 196,881 |
| Charge for year | 1,510 | 38,309 | - | 39,819 |
| At 31 March 2021 | 20,096 | 216,604 | - | 236,700 |
| **Net book value** | | | | |
| At 31 March 2022 | 4,295 | 41,904 | 15,863 | 62,062 |
| At 31 March 2021 | 3,128 | 10,830 | 70,705 | 84,663 |

## 15. Tangible assets (continued)

In accordance with the accounting policy, all assets are either fully depreciated or depreciated to their residual value by the end of the franchise which is 31 March 2023. Assets under construction significantly decreased during the year as major projects including Taunton Station renovation £15.8m and Exeter Depot £49.6m were completed and depreciation commenced.

## 16. Stocks

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Spare parts and consumables, including fuel | 12,106 | 10,353 |

There is no significant difference between the replacement cost of the stock and its carrying amount.

## 17. Debtors

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Trade debtors | 61,141 | 29,412 |
| Provision on trade debtors | (1,877) | (1,947) |
| Amounts owed by group undertakings | 6,355 | 7,369 |
| VAT | 5,194 | 1,887 |
| Other debtors | 23,137 | 10,690 |
| Accrued income | 23,156 | 41,256 |
| Prepayments | 2,599 | 3,366 |
| Deferred tax | 9,230 | 9,047 |
| | 128,935 | 101,080 |

Trade debtors includes passenger income debtors due from other train companies, the increase in passenger income versus last year drives the increase in trade debtors. Other debtors include performance debtors with Network Rail, these are settled 5 weeks in arrears. Accrued income has decreased year on year due to the settlement of balances related to the Direct Award 2 franchise with the DfT. Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Among the debtors is deferred tax which is falling due after more than 1 year. At 31 March 2022 the franchise had only one year left prior to expiry and the NRC had not yet been signed. Therefore, the deferred tax has been treated as a current asset.

## 17. Debtors (continued)

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| At 1 April | | 9,047 | 9,048 |
| Charged to the profit and loss | 13 | 183 | (1) |
| Deferred tax asset | | 9,230 | 9,047 |

The deferred tax asset consists of the following amounts:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Capital allowances in excess of depreciation | 7,480 | 7,680 |
| Other timing differences | 1,750 | 1,367 |
| Deferred tax asset | 9,230 | 9,047 |

During the year beginning 1 April 2022, the net reversal of deferred tax assets is expected to decrease the charge to corporation tax for the year by £987,000 (2021: £602,000), mainly due to depreciation, capital allowances and capital grant amortisation.

## 18. Cash at bank and in hand

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Bank deposits | 249,411 | 312,609 |

Cash and cash equivalents include ring-fenced cash of £223.8m (2021: £295.8m).

The ring-fenced cash represents that which is not available for distribution to the company's shareholders or the amount required to satisfy the liquidity ratios at the balance sheet date.

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Trade creditors | 59,979 | 35,626 |
| Amounts owed to group undertakings | 12,985 | 11,661 |
| Group tax relief | 16,914 | 13,441 |
| Other taxation and social security | 8,465 | 7,846 |
| Other creditors | 6,768 | 4,460 |
| Deferred income | 30,269 | 14,178 |
| Capital grant income | 70,564 | 91,061 |
| Accruals | 200,705 | 192,848 |
| | 406,649 | 371,121 |

The increase in the trade creditor balance in 2022 was related to increased amounts owing to other TOCs, arising from the growth in passenger income. This growth also drove an increase in advance purchase tickets and railcards which are recorded as deferred income. At 31 March 2022, the agreement for the new National Rail Contract (NRC) had not been signed, therefore all creditors were assumed to be falling due by the end of the DA3 franchise (31 March 2023) and are accordingly disclosed as current liabilities. The impact of this is to move £53.8m of creditors into the falling due within one year category. The increase in the accrual and capital grant income value is offset by the finalisation of some historic Direct Award 2 matters with the DfT. In addition, some historical disputes were resolved successfully with Network Rail, resulting in a reduction in the accruals. Finally, the commencement of amortisation of certain capital grants following the completion of the associated projects has reduced our capital grant income balances.

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

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

| | Dilapidations £'000 | Legal & Other £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2021 | - | 5,445 | 5,445 |
| Charged to the profit and loss account | 1,192 | 3,643 | 4,835 |
| Utilised in the year | (147) | (3,238) | (3,385) |
| Transfer from accruals | - | 3,140 | 3,140 |
| Transfer from provisions greater than one year | 9,038 | 794 | 9,832 |
| At 31 March 2022 | 10,083 | 9,784 | 19,867 |

During the year an assessment of the dilapidations works required was completed and an additional provision of £1.192m was established. Within legal and other, an additional provision was made of £3.498m for the industry wide Voluntary Severance Scheme restructuring, of this provision, £2.350m was settled during the year with the remainder to be settled in 2022-23. In addition to these payments, further payments were made in respect of planned restructuring existing prior to 1 April 2021 and for the settlement of insurance claims. Balances for dilapidations and legal and other provisions were transferred to falling due within one year from their respective falling due after one year categories as the DA3 franchise was due to end on 31 March 2023 prior to entering the NRC which commenced on 26 June 2022.

## 21. Creditors: amounts falling due after more than one year

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Deferred income | - | 8,655 |
| Capital grant income | - | 50,210 |
| Accruals | - | 30,355 |
| | - | 89,220 |

At 31 March 2022 the agreement for the new National Rail Contract (NRC) had not yet been signed, therefore all creditors are assumed to be falling due within one year.

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

| | Dilapidations £'000 | Legal & Other £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2021 | 9,038 | 794 | 9,832 |
| Charged to the profit and loss account | - | - | - |
| Transfer to provisions less than one year | (9,038) | (794) | (9,832) |
| At 31 March 2022 | - | - | - |

Balances for dilapidations and legal and other provisions were transferred to falling due within one year, see note 20.

## 23. Called up share capital

| | 2022 £ | 2021 £ |
|---|---|---|
| **Authorised** | | |
| 1,000 (2021: 1,000) ordinary shares of £1 each | 1,000 | 1,000 |
| **Allotted, called up and fully paid** | | |
| 1 (2021: 1) ordinary share of £1 each | 1 | 1 |

## 24. Dividends

Dividend distribution to the company's 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's shareholders. During the year the company made dividend payments of £33.0m (2021: £19.0m) to First Rail Holdings Limited, the company's immediate controlling entity.

## 25. Commitments

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Contracted for but not provided | 13,786 | 20,279 |

Capital commitments relate to the maintenance examination schedule on our train vehicles and our station upgrade programmes. Commitments have decreased versus the prior year due to the examination schedules on our train vehicles and key projects such as Exeter Depot and Taunton Station refurbishment nearing completion.

**Operating leases**

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Plant and machinery | 354 | 395 |
| Hire of rolling stock* | 260,163 | 260,069 |
| Track and station access | 139,710 | 134,683 |
| Other assets | 1,527 | 1,225 |
| | 401,754 | 396,372 |

*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 as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Maintenance of rolling stock | 210,548 | 206,158 |

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:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Within one year** | 430,272 | 315,620 |
| In the second to fifth years inclusive** | - | 312,821 |
| | 430,272 | 628,441 |

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 £159.0m (2021: £50.0m). The 2021 value was lower due to the termination date on the track access contract, the 2022 value contains a full 12 months. The remaining commitments for both 2022 and 2021 are primarily for the lease of rolling stock. The absence of minimum lease payments falling due in the second to fifth years inclusive at the end of 2021 is due to the expiry of the DA3 franchise on 31 March 2023 which was anticipated prior to FGW commencing the NRC on 26 June 2022.

**25. 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:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Within one year | 226,442 | 207,599 |
| In the second to fifth years inclusive | - | 211,751 |
| | 226,442 | 419,350 |

The DA3 franchise ceases 31 March 2023 resulting in no commitments within the second to fifth year bracket compared to 1 year of commitments in 2021.

As at the balance sheet date 31 March 2022, the agreement for the new National Rail Contract (NRC) had not yet been signed, therefore all commitments are assumed to be falling due within one year.

**26. Pension arrangements**

**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 2022 was £0.4m (2021: £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 £19.2m (2021: £19.7m).

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. This note uses member data obtained by the scheme actuary for the 2019 valuation (which has not been finalised), updated to March 2022; at this date the market value of the scheme's assets totalled £1,369.1m. The actuarial value of these assets was sufficient to cover 74% (2021: 62%) 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

## 26. Pension arrangements (continued)

| | Category 60 2022 | Category 60 2021 | Category 62 2022 | Category 62 2021 |
|---|---|---|---|---|
| Employees % | 8.96% | 8.96% | 8.04% | 8.04% |
| Employers % | 13.44% | 13.44% | 12.06% | 12.06% |
| | 22.40% | 22.40% | 20.10% | 20.10% |

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 at the balance sheet date reflects the extent to which FGW is not currently committed to fund the deficit.

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 credit method.

At the previous year end, we noted that The Pensions Regulator (TPR) had been in discussion with the RPS (the Scheme) regarding the assumptions used to determine the scheme's funding requirements. Discussions are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme.

**Financial assumptions**

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

| | 2022 | 2021 |
|---|---|---|
| Rate of increase in salaries | 3.43% | 3.05% |
| Rate of increase of pensions in payment | 2.93% | 2.55% |
| Rate of increase of pensions in deferment | 2.93% | 2.55% |
| Discount rate | 2.83% | 2.05% |
| Inflation assumption – RPI | 3.30% | 3.05% |
| Inflation assumption – CPI | 2.93% | 2.55% |

**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 20.6 years (2021: 20.1 years). Future pensioners aged 65 (45 now) will have a rate of 22.1 years (2021: 21.9).

# First Greater Western Limited
# Notes to the Financial Statements
# Year ended 31 March 2022

## 26. Pension arrangements (continued)

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Equities | 819,000 | 102,500 |
| Property | 163,400 | 5,500 |
| Cash and cash equivalents | 1,500 | 8,200 |
| Other return seeking assets[1] | 385,200 | 1,101,100 |
| | 1,369,100 | 1,217,300 |

[1] 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. As at the reporting date, the Growth Pooled Fund was invested predominantly in a range of Equity investments.

**Reconciliation of movements**

| | Assets £m | Liabilities £m | Shared cost £m | Franchise adjustment £m | Net £m |
|---|---|---|---|---|---|
| **At 1 April 2020** | **1,003.9** | **(1,521.5)** | **207.0** | **310.6** | - |
| **Income statement** | | | | | |
| **Operating** | | | | | |
| Service cost | - | (75.3) | 30.1 | 25.5 | (19.7) |
| Admin cost | - | (3.6) | 1.4 | - | (2.2) |
| **Total operating** | - | **(78.9)** | **31.5** | **25.5** | **(21.9)** |
| **Financing** | **23.9** | **(35.1)** | **4.5** | **6.7** | - |
| **Total income statement** | **23.9** | **(114.0)** | **36.0** | **32.2** | **(21.9)** |
| **Amounts paid to/(from) scheme** | | | | | |
| Employer contributions | 21.9 | - | (8.8) | 8.8 | 21.9 |
| Employee contributions | 14.4 | - | (5.7) | (8.7) | - |
| Benefits paid | (43.0) | 43.0 | - | - | - |
| **Total** | **(6.7)** | **43.0** | **(14.5)** | **0.1** | **21.9** |
| **Expected closing position** | **1,021.1** | **(1,592.5)** | **228.5** | **342.9** | - |
| **Gains/(loss)** | | | | | |
| Change in actuarial assumptions | - | (396.9) | 158.9 | 238.0 | - |
| Change in demographic assumptions | - | 90.2 | (36.1) | (54.1) | - |
| Return on assets in excess of discount rate | 196.2 | - | (78.5) | (117.7) | - |
| Experience | - | (49.0) | 19.6 | 29.4 | - |
| **Total** | **196.2** | **(355.7)** | **63.9** | **95.6** | - |
| **At 31 March 2021** | **1,217.3** | **(1,948.2)** | **292.4** | **438.5** | - |

**26. Pension arrangements (continued)**

**Reconciliation of movements**

| | Assets | Liabilities | Shared cost | Franchise adjustment | Net |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **At 1 April 2021** | **1,217.3** | **(1,948.2)** | **292.4** | **438.5** | **-** |
| **Income statement** | | | | | |
| **Operating** | | | | | |
| Service cost | - | (94.3) | 37.7 | 37.4 | (19.2) |
| Admin cost | - | (4.5) | 1.8 | - | (2.7) |
| **Total operating** | **-** | **(98.8)** | **39.5** | **37.4** | **(21.9)** |
| **Financing** | **25.1** | **(38.5)** | **5.4** | **8.0** | **-** |
| **Total income statement** | **25.1** | **(137.3)** | **44.9** | **45.4** | **(21.9)** |
| **Amounts paid to/(from) scheme** | | | | | |
| Employer contributions | 21.9 | - | (8.7) | 8.7 | 21.9 |
| Employee contributions | 14.4 | - | (5.8) | (8.6) | - |
| Benefits paid | (47.3) | 47.3 | - | - | - |
| **Total** | **(11.0)** | **47.3** | **(14.5)** | **0.1** | **21.9** |
| **Expected closing position** | **1,231.4** | **(2,038.2)** | **322.8** | **484.0** | **-** |
| **Gains/(loss)** | | | | | |
| Change in actuarial assumptions | - | 188.9 | (75.6) | (113.3) | - |
| Return on assets in excess of discount rate | 137.7 | - | (55.1) | (82.6) | - |
| Experience | - | (3.8) | 1.5 | 2.3 | - |
| **Total** | **137.7** | **185.1** | **(129.2)** | **(193.6)** | **-** |
| **At 31 March 2022** | **1,369.1** | **(1,853.1)** | **193.6** | **290.4** | **-** |

**27 Post balance sheet events**

The EMA for DA3 was extended on 26 May 2021 until 25 June 2022. There were no changes to the terms of the original EMA for DA3.

On 14 June 2022, FGW and the DfT signed a National Rail Contract agreement which commenced on 26 June 2022 and initially runs for 3 years to 25 June 2025 with 3 further optional years which are subject to approval. Refer to note 4 and note 19 on the impact of the NRC agreement.

**28 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 Annual Report and Accounts of FirstGroup plc can be obtained on request from 8th Floor, The Point, 37 North Wharf Road, Paddington, London, W2 1AF.