

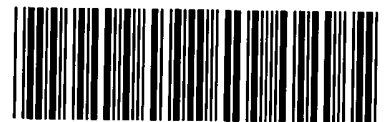
Company Registration No. 05113733

First Greater Western Limited

Report and Financial Statements

For the year ended 31 March 2017

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First Greater Western Limited

Report and financial statements 2017

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First Greater Western Limited

Strategic Report

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

Principal activities

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

Business review and future outlook

First Greater Western (FGW) continues to operate under the commercial terms of a new direct award which runs to 1 April 2019. The Department for Transport (DfT) has now published documents indicating an assumption that it will exercise its option to extend this direct award to April 2020. This assumption is contained in its latest franchise timetable, published in December 2016.

The Government's investment in key national rail infrastructure continues, including the £7.5bn investment in the Great Western Mainline. We have a strong track record for close partnership working with all industry partners to deliver infrastructure upgrade projects whilst minimising disruption for passengers. We are working closely with Network Rail and with DfT to support these infrastructure upgrades, which will help us deliver capacity, frequency and journey time improvements for customers.

Alongside the ongoing investment in the rail network, the biggest fleet upgrade in a generation has started. New Hitachi Intercity Express trains are scheduled to be introduced in 2017/18, and FGW should be the first operator to run this class of rolling stock. We introduced the first electric trains to run on FGW's London suburban routes from September 2016, to provide an enhanced passenger experience and increased capacity; the service has since been extended along the Thames Valley from May 2017. Overall, we plan to create three million more seats across the network by December 2018, as well as quicker journey times and more frequent services.

We are also introducing a redesigned passenger app that allows customers to purchase tickets and reserve seats via mobile phone as well as plan their door to door multi-modal journey.

At stations we are delivering additional car parking spaces, as well as new and upgraded customer information screens, and improved waiting, retail and interchange facilities. We are introducing new ticket machines which make it easy to find the best value fares. During 2016/17 and 2017/18, more than 5,000 frontline employees took part or will be undertaking our new 2-day customer service training programme across FGW.

FGW continued its profitable performance under the direct awards and continued its strong progress on the fleet and infrastructure projects in conjunction with industry partners. The company made an operating profit of £47.1m (2016: £56.1m) on turnover of £998.4m (2016: £1,009.7m). Passenger receipts showed reported growth of 0.3% (2016: 4.7%) over the year (2017: £940.0m versus 2016: £937.0m). Passenger receipt growth slowed during the year reflecting the industry wide slowdown and the impact of infrastructure upgrades on the FGW network. The impact of slowed growth was partially offset by cost efficiencies and resolution of historic performance regime discussions with the DfT. FGW will continue to focus on growing revenue and reducing its addressable cost base in the year ahead.

Future priorities

We continue to demonstrate the extensive operational strengths as well as the fleet and infrastructure upgrade capabilities that we have built up through our involvement in major projects across our network. Through the combination of infrastructure, station and rolling stock investment with new timetables over the next several years we plan to deliver substantial capacity improvements which will transform the customer experience. A transformation board operates to ensure delivery of strategies, programmes and projects which are being undertaken across FGW. Working with Network Rail remains critical to delivery of this programme. We intend to continue to leverage third party investment into the railway while investing in "Customers and Communities" via our improvement fund, £770,000 was made available in the year from FGW's £2.25m "Customer and Communities" improvement fund to work with community organisations across the network. Coupled with this, we are currently working with the DfT to develop and implement the "Delay Repay 15" policy giving passengers improved compensation.

We will continue to focus on working with our industry partners to realise the upgrade plans across the network, so that passengers will begin to see the benefits from new and better trains, more seats and services, quicker journey times and improved stations and new technology.

First Greater Western Limited

Strategic Report (continued)

Under the terms of FGW's contract with the DfT there are risk areas that are within the control of FGW, but it is also the case that successful delivery of infrastructure and rolling stock projects is materially dependent on third parties. Accordingly, in the event of a change in several infrastructure and rolling stock assumptions since the agreement was let there will be an adjustment to the Franchise Payments. The directors consider that such change has occurred and we are currently working with the DfT to agree the appropriate adjustment.

Key Performance Indicators

Train operating performance decreased during 2016/17 versus 2015/16 with our public performance measure moving annual average score standing at 88.4% (2016: 89.5%). Significant challenges were posed by Network Rail infrastructure reliability in the Thames Valley during the first half of the year; a recovery plan was implemented with improving results. FGW's own performance was in line with our targets.

In the latest independent Transport Focus National Rail Passenger Survey FGW saw a slight year-on-year fall from its previous record high to 82% (2016: 84%). Punctuality and reliability scores decreased due to infrastructure works while scores for ticket purchasing, train comfort and station environments all showed improvements.

FGW's average headcount in the year increased to 5,918 (2016: 5,830), an increase of 1.5% as a result of our investment in resources for delivering customer service, enabling training for operation during Network Rail infrastructure works and participating directly in infrastructure and other projects.

Principal risks and uncertainties

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

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

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

Rail franchise agreements

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

First Greater Western Limited

Strategic report (continued)

Information technology

Our business relies on information technology in all aspects of its operations. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information (including credit card and personal data). Process failure, security breach or other operational difficulties may also lead to revenue loss. Prolonged failure of our sales website could also adversely affect revenues. As a result of the continued threat of cyber-attacks our operations are implementing new threat detection systems but continue to remain vigilant to security improvements when identified. The company has increased its focus on asset management and further enhanced its IT security processes and procedures during the year.

Political and regulatory issues

Our business is subject to numerous laws and regulations covering a wide range of matters including health and safety, equipment, employment (including working time, wage and hour, mandatory breaks and holiday pay), competition and anti-trust, data protection and security, bribery and corruption, environment, insurance coverage, consumer protection, and other operational issues. Failure to comply could have financial or reputational implications, could result in increased litigation and claims and have a negative impact on First Greater Western. These laws and regulations are constantly subject to change, the impact of which could include increased compliance costs and/or a reduction in operational flexibility and efficiency. To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup actively engages with the relevant bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes.

Competition

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

Customer service

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

Pensions

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

First Greater Western Limited

Strategic report (continued)

Employee costs and relations

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

Fuel costs

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

Severe weather and natural disasters

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

Terrorism

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

Economy

Changing economic conditions effect our business in different ways. A less positive economic outlook affects the number of train journeys taken by passengers in the UK. Any changes in economic activity may impact upon the passenger numbers and hence our operations. A downturn in economic conditions could have a negative impact on our business in terms of reduced demand and reduced opportunities for growth. Improving economic conditions may also result in a tightening of labour markets resulting in employee shortages, pressure to increase pay, or affect the availability of public funding for transport services. The same factors could also affect our key suppliers. To mitigate these risks, we continue to focus on controlling costs to ensure we remain competitive.

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



Dr Benjamin Caswell
Director
22 June 2017
Milford House
1 Milford Street
Swindon
Wiltshire, SN1 1HL

First Greater Western Limited

Directors' report

The directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 March 2017. A review of the business and the future developments are set out in the Strategic report.

Directors

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

Directors who held office throughout the year:

Dr Benjamin Caswell
Andrew Mellors
Clive Burrows
Mark Hopwood

Martin Stoolman
Matthew Golton
Hugh Clancy
Stephen Montgomery

The following directors resigned during the year; David Gausby 31 December 2016, Benjamin Rule 12 August 2016.

Employee consultation

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

Disabled persons

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

Going concern

Following successful negotiation with the DfT an agreement was reached to enter into a Direct Agreement with the company for a new franchise with duration of up to four and a half more years from 20 September 2015. As a result, we will continue to run First Greater Western to at least 1 April 2019, with a further extension of up to one year at the DfT's discretion. The directors have considered the going concern assumption given the current economic climate, the Direct Agreement to at least 1 April 2019, and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future, being at least 12 months from the date of approving these financial statements. The directors have considered the company forecasts, current level of capital commitment and the parent company commitment in forming this judgement. A Letter of Support has been provided by FirstGroup plc to state that it will provide the company with sufficient working capital to allow it to continue in business for at least twelve months from date of signing of the annual accounts with reference to the net current liabilities position of £47.0m on the balance sheet.

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

First Greater Western Limited

Directors' report (continued)

Financial risk management objectives and policies

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

Financial matters

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

During 2016/17 no final dividend was paid to First Rail Holdings Limited (2016: £19m), the company's immediate controlling entity. An interim dividend of £30m (2016: £20m) was paid during the year, again to First Rail Holdings Limited, reference note 20.

Under FRS 102 First Greater Western has taken advantage of a number of reduced disclosures. Further information is available within the principal accounting policies section. This position has been agreed with First Rail Holdings Limited, the company's immediate controlling entity.

Directors' Indemnities

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

Auditor information

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

- as far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418(2) of the Companies Act 2006.

Auditor

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

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



Dr Benjamin Caswell
Director
22 June 2017
Milford House
1 Milford Street
Swindon
Wiltshire
SN1 1HL

First Greater Western Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accountancy standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

First Greater Western Limited

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

We have audited the financial statements of First Greater Western Limited for the year ended 31 March 2017 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities per page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and
- the Strategic Report and the Directors' Report have been prepared in accordance with the applicable legal requirements.

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

First Greater Western Limited

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Jennifer Chase (Senior Statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
22 June 2017

First Greater Western Limited

Profit and Loss Account Year ended 31 March 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|-------|---------------|---------------|
| Turnover | 2 | 998,401 | 1,009,705 |
| Operating costs | | | |
| - General | | (950,954) | (950,356) |
| - Intangible asset amortisation | | (320) | (3,250) |
| Total operating costs | 3 | (951,274) | (953,606) |
| Operating profit | | 47,127 | 56,099 |
| Net interest receivable | 7 | 1,016 | 687 |
| Profit on ordinary activities before taxation | 8 | 48,143 | 56,786 |
| Tax charge on profit on ordinary activities | 9 | (10,388) | (11,556) |
| Retained profit for the year, transferred to reserves | | 37,755 | 45,230 |

All activities relate to continuing operations.

Statement of comprehensive income Year ended 31 March 2017

| | £'000 | 2017 £'000 | £'000 | 2016 £'000 |
|--|-----------|---------------|-----------|---------------|
| Profit for the financial year | | 37,755 | | 45,230 |
| Actuarial (loss)/gain due to scheme assets and liabilities | (139,256) | | 113,415 | |
| Actuarial gain/(loss) due to rail franchise adjustment | 139,256 | | (113,415) | |
| UK deferred taxation attributable to actuarial gain | - | | - | |
| | | - | | - |
| Total comprehensive income for the year | | 37,755 | | 45,230 |

First Greater Western Limited

Balance sheet As at 31 March 2017

| | Notes | £'000 | 2017 £'000 | £'000 | 2016 £'000 |
|---|-------|-----------|-----------------|----------------|-----------------|
| Assets employed: | | | | | |
| Fixed assets | | | | | |
| Intangible assets | 10 | | 3,943 | | - |
| Tangible assets | 11 | | 80,599 | | 66,902 |
| | | | <u>84,542</u> | | <u>66,902</u> |
| Non-current assets | | | | | |
| Long term receivables | 12 | | 8,975 | | 7,681 |
| Current assets | | | | | |
| Stocks | 13 | 16,059 | | 15,273 | |
| Debtors | 14 | 93,212 | | 91,222 | |
| Cash at bank and in hand | 15 | 245,526 | | 202,889 | |
| | | | <u>354,797</u> | <u>309,384</u> | |
| Creditors: amounts falling due within one year | 16 | (393,433) | | (340,357) | |
| Provisions for liabilities and charges: amounts falling due within one year | 17 | (8,361) | | (7,562) | |
| Net current liabilities | | | <u>(46,997)</u> | | <u>(38,535)</u> |
| Total assets less current liabilities | | | <u>46,520</u> | | <u>36,048</u> |
| Creditors: amounts falling due after more than one year | | | - | | - |
| Provisions for liabilities and charges: amounts falling due after more than one year | 18 | | (21,281) | | (18,959) |
| Net assets excluding pension liability | | | <u>25,239</u> | | <u>17,089</u> |
| Pension liability | 22 | | - | | - |
| Net assets | | | <u>25,239</u> | | <u>17,089</u> |
| Financed by: | | | | | |
| Capital and reserves | | | | | |
| Called up share capital | 19 | | - | | - |
| Profit and loss account | | | 25,239 | | 17,089 |
| Shareholder's funds | | | <u>25,239</u> | | <u>17,089</u> |

The financial statements of First Greater Western Limited, registered number 05113733 were approved by the Board of Directors on 22 June 2017 and were signed on its behalf by:

B> — M

Dr Benjamin Caswell
Director

First Greater Western Limited

Statement of changes in equity Year ended 31 March 2017

| | Notes | Called up share capital £'000 | Profit and loss account £'000 | Total £'000 |
|---|-------|--|--|----------------|
| Balance at 31 March 2015 | | - | 10,400 | 10,400 |
| Total comprehensive income for the financial year | | - | 45,230 | 45,230 |
| Dividend payments | 20 | - | (39,000) | (39,000) |
| Share-based payments | | - | 459 | 459 |
| Balance at 31 March 2016 | | - | 17,089 | 17,089 |
| Total comprehensive income for the financial year | | - | 37,755 | 37,755 |
| Dividend payments | 20 | - | (30,000) | (30,000) |
| Share-based payments | | - | 395 | 395 |
| Balance at 31 March 2017 | | - | 25,239 | 25,239 |

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2017

1. Principal accounting policies

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

(a) General information and basis of accounting

First Greater Western Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act. The registered office address is Milford House, 1 Milford Street, Swindon, Wiltshire, SN1 1HL. The nature of the company's operations and its principal activities are set out in the Strategic report on page 2. The functional currency of First Greater Western Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

(b) Basis of preparation

The financial statements have been prepared under a historical cost convention and on a going concern basis as described in the going concern statement in the Directors' Report on page 6, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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

(c) Tangible fixed assets and depreciation

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

Depreciation is provided to write off the cost less residual value of tangible fixed assets over the shorter of their estimated useful economic lives, or the duration of the franchise to the 1 April 2019. Our depreciation policy is as follows:

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

(d) Intangible fixed assets and depreciation

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 to the 1 April 2019. Our amortisation policy is as follows;

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

(e) Leases and hire purchase

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

(f) Government grants and subsidies

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

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

1. Principal accounting policies (continued)

(g) Stocks

Stocks are valued at the lower of weighted average cost and net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

(h) Financial assets and liabilities

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

(i) Taxation

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

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

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

(j) Pension costs

Company specific schemes

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

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

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

First Greater Western Limited

Notes to the financial statements (continued) **Year ended 31 March 2017**

1. Principal accounting policies (continued)

Rail franchise adjustment

In calculating First Greater Western'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 Group's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to First Greater Western and recognised in the accounts.

(k) Turnover

Turnover in UK Rail primarily include amounts attributable to the train operating companies ("TOCs"), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts. Turnover from non-passenger receipts include on train catering income, commission on ticket sales and other sundry income.

(l) Future ticket deferral

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

(m) Provisions

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

(n) Share-based payments

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

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

First Greater Western Limited

Notes to the financial statements (continued) **Year ended 31 March 2017**

1. Principal accounting policies (continued)

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

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the process of applying the company's accounting policies as described above, management have made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

i) Critical accounting judgements

Defined benefits pension arrangements

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

ii) Key sources of estimation uncertainty

Contract and franchise accounting

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

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

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

Self-insurance

Provision is made for all known incidents for which there is self-insurance using management's best estimate of the likely settlement of these incidents. The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided is adjusted as required.

Tax provisions

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

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

2. Turnover and profit on ordinary activities before taxation

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

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

| | 2017 £'000 | 2016 £'000 |
|--------------------|----------------|------------------|
| Passenger receipts | 940,049 | 936,981 |
| Other revenue | 58,352 | 72,724 |
| | <u>998,401</u> | <u>1,009,705</u> |

3. Operating costs

| | Note | 2017 £'000 | 2016 £'000 |
|--|------|----------------|----------------|
| Raw materials and consumables | | 96,223 | 103,718 |
| Staff costs | 4 | 321,154 | 318,092 |
| Other external charges | | 358,510 | 376,732 |
| Net franchise payments | | 132,265 | 106,179 |
| Grant amortisation releases | | (4,525) | (8,548) |
| Depreciation and other amounts written off tangible fixed assets and intangible fixed assets | | <u>47,647</u> | <u>57,433</u> |
| | | <u>951,274</u> | <u>953,606</u> |

4. Employee numbers and costs

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

| | 2017 Number | 2016 Number |
|--|----------------|----------------|
| Traincrew including traincrew management | 2,980 | 2,959 |
| Maintenance | 1,243 | 1,218 |
| Customer service | 1,347 | 1,351 |
| Administration | 348 | 302 |
| | <u>5,918</u> | <u>5,830</u> |

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

4. Employee numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

| | 2017 £'000 | 2016 £'000 |
|-----------------------|----------------|----------------|
| Wages and salaries | 276,102 | 275,375 |
| Social security costs | 27,097 | 20,329 |
| Other pension costs | 17,955 | 22,388 |
| | <u>321,154</u> | <u>318,092</u> |

5. Directors' remuneration

Certain directors (David Gausby, Clive Burrows, Stephen Montgomery and Hugh Clancy) received remuneration from FirstGroup plc, the ultimate parent company, and First Rail Holdings Limited, the immediate parent company, in the current and prior years. The directors have not performed any qualifying services on behalf of First Greater Western Limited during the current and prior year. Details of retirement benefits accruing to the directors under the group defined benefit schemes are detailed in the financial statements of FirstGroup plc.

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

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Aggregate emoluments (excluding pension contributions) | 1,028 | 1,463 |
| Compensation for loss of office | 97 | 124 |
| | <u>1,125</u> | <u>1,587</u> |

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

| | 2017 Number | 2016 Number |
|--|----------------|----------------|
| The number of directors who: Were members of a defined benefit pension scheme | <u>10</u> | <u>13</u> |

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

5. Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

| | 2017 £'000 | 2016 £'000 |
|---------------------------------|---------------|---------------|
| Aggregate emoluments: | | |
| Basic | 241 | 239 |
| Bonus | 76 | 160 |
| Allowances | 10 | 10 |
| Benefits | 2 | 2 |
| | <u>329</u> | <u>411</u> |
| <i>Defined benefit scheme</i> | | |
| Accrued pension at end of year | 36 | 26 |
| Accrued lump sum at end of year | 17 | 15 |
| | <u>53</u> | <u>41</u> |

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

6. Share-based payments

Save as you earn (SAYE)

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

Buy as you earn (BAYE)

BAYE enables eligible employees to purchase shares from their gross income. The company provides two matching shares in FirstGroup plc for every three shares bought by employees, subject to a maximum Company contribution or shares to a value of £20 per employee per month. If the shares are held in a trust for five years or more, no income tax or national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

Divisional Incentive Plan (DIP)

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

The group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total expense of £395,000 (2016: £459,000) relating to equity-settled share-based payment transactions.

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

7. Net interest receivable/(payable)

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| <i>Interest payable and similar charges</i> | | |
| Amounts payable to group undertakings | - | (348) |
| | - | (348) |
| <i>Interest receivable and similar income</i> | | |
| Amounts receivable from group undertakings | 100 | - |
| Bank interest | 916 | 1,035 |
| Net interest receivable | 1,016 | 687 |

8. Profit on ordinary activities before taxation

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Profit on ordinary activities before taxation is stated after charging/(crediting): | | |
| Auditor's remuneration | | |
| - Deloitte LLP audit fee for the audit of the annual accounts | 120 | 147 |
| - Deloitte LLP non-audit fee for other services | 14 | 10 |
| Depreciation on tangible and amortisation from intangible owned assets | 47,647 | 57,433 |
| Cost of stock recognised as an expense | 29,705 | 31,322 |
| Rentals payable under operating leases | | |
| - plant and machinery | 61,346 | 59,112 |
| - other operating leases | 101,692 | 96,910 |
| Net rents receivable from property | (4,139) | (3,779) |

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

9. Tax charge on profit on ordinary activities

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Current taxation | | |
| - Group relief payable | 8,920 | 12,113 |
| - Adjustment in respect of prior years | 838 | 1,716 |
| Total current taxation | 9,758 | 13,829 |
| Deferred taxation | | |
| - Origination and reversal of timing differences | 579 | (571) |
| - Effect of decrease in tax rate on opening deferred tax balance | 538 | 958 |
| - Adjustment in respect of prior years | (487) | (2,660) |
| | 630 | (2,273) |
| Total tax charge on profit on ordinary activities | 10,388 | 11,556 |

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 20% (2016: 20%). The actual current tax charge on profit on ordinary activities for the current and previous year differed from the profit on ordinary activities multiplied by standard rate of corporation tax for the reasons set out in the following reconciliation:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Profit before tax on ordinary activities | 48,143 | 56,786 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom (20%) (2016: 20%) | 9,629 | 11,357 |
| Factors affecting charge | | |
| - Expenses not deductible for tax purposes | (28) | 129 |
| - Prior year adjustments | 351 | (945) |
| - Effect of decrease in tax rate on opening deferred tax balance | 538 | 958 |
| - Effect of decrease in tax rate on origination and reversal of timing differences | (102) | 57 |
| Total tax charge on profit on ordinary activities (21.6%) (2016: 20.4%) | 10,388 | 11,556 |

The UK Government enacted legislation to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017, plus a further reduction to 17% from 1 April 2020. The impact of this rate reduction to 17% has reduced the deferred tax asset on UK timing differences.

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

10. Intangible fixed assets

| | Computer Software £'000 | Pension Asset £'000 | Total £'000 |
|---------------------------------|-------------------------------|---------------------------|----------------|
| Cost | | | |
| At 1 April 2016 | - | 13,700 | 13,700 |
| Additions | 3,115 | - | 3,115 |
| Transfers | 1,148 | - | 1,148 |
| Extinguished | - | (13,700) | (13,700) |
| At 31 March 2017 | 4,263 | - | 4,263 |
| Accumulated amortisation | | | |
| At 1 April 2016 | - | 13,700 | 13,700 |
| Charge for year | 299 | - | 299 |
| Transfers | 21 | - | 21 |
| Extinguished | - | (13,700) | (13,700) |
| At 31 March 2017 | 320 | - | 320 |
| Net book value | | | |
| At 31 March 2017 | 3,943 | - | 3,943 |
| At 31 March 2016 | - | - | - |

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. Transfers relates to expenditure and depreciation on Computer Software which has been reclassified as Intangible Fixed Assets during the year, see note 11. The intangible pension asset related wholly to the direct award franchise terminating September 2015 and was extinguished in the accounts during 2016/17.

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

11. Tangible fixed assets

| | Passenger carrying vehicle fleet £'000 | Other plant and equipment £'000 | Total £'000 |
|---------------------------------|---|--|----------------|
| Cost | | | |
| At 1 April 2016 | 141,582 | 105,292 | 246,874 |
| Additions | 37,084 | 25,088 | 62,172 |
| Transfers | - | (1,148) | (1,148) |
| At 31 March 2017 | 178,666 | 129,232 | 307,898 |
| Accumulated depreciation | | | |
| At 1 April 2016 | 109,099 | 70,873 | 179,972 |
| Charge for year | 33,181 | 14,167 | 47,348 |
| Transfers | - | (21) | (21) |
| At 31 March 2017 | 142,280 | 85,019 | 227,299 |
| Net book value | | | |
| At 31 March 2017 | 36,386 | 44,213 | 80,599 |
| At 31 March 2016 | 32,483 | 34,419 | 66,902 |

Included in Other plant and equipment is £7.4m (2016: £2.2m) of construction in progress assets, which are not depreciated until they are brought into use, this primarily relates to depot improvement works. Transfers relates to expenditure and depreciation on Computer Software which has been reclassified as Intangible Fixed Assets during the year, see note 10.

12. Non-current assets

| | 2017 £'000 | 2016 £'000 |
|-----------------------|---------------|---------------|
| Long term receivables | 8,975 | 7,681 |

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

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

13. Stocks

| | 2017 £'000 | 2016 £'000 |
|-----------------------------|---------------|---------------|
| Spare parts and consumables | 16,059 | 15,273 |

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

14. Debtors

| | Note | 2017 £'000 | 2016 £'000 |
|---|------|---------------|---------------|
| Amounts falling due within one year: | | | |
| Trade debtors | | 47,211 | 39,605 |
| Provision on trade debtors | | (176) | (117) |
| Amounts owed by group undertakings | | 1,475 | 2,070 |
| VAT | | 13,318 | 12,647 |
| Other debtors | | 1,826 | 2,073 |
| Prepayments and accrued income | | 20,997 | 25,753 |
| Deferred tax | | 8,561 | 9,191 |
| | | <u>93,212</u> | <u>91,222</u> |

£'000

Deferred tax asset

| | | |
|---------------------------------------|----|--------------|
| At 1 April 2016 | | 9,191 |
| Credit to the profit and loss account | 9 | (630) |
| At 31 March 2017 | 14 | <u>8,561</u> |

The deferred tax asset consists of the following amounts:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Capital allowances in excess of depreciation | 3,189 | 4,240 |
| Other timing differences | 5,372 | 4,951 |
| Deferred tax asset | <u>8,561</u> | <u>9,191</u> |

During the year beginning 1 April 2017, the net reversal of deferred tax assets is expected to increase the charge to corporation tax for the year by £531,000, mainly due to depreciation, capital allowances and capital grant amortisation.

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

15. Cash at bank and in hand

| | 2017 £'000 | 2016 £'000 |
|---------------|---------------|---------------|
| Bank deposits | 245,526 | 202,889 |

Cash and cash equivalents include ring-fenced cash of £211.9m (2016: £177.3m). Under the terms of the franchise agreement, the company can only distribute cash either up to the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratios at the balance sheet date.

16. Creditors: amounts falling due within one year

| | 2017 £'000 | 2016 £'000 |
|------------------------------------|---------------|---------------|
| Trade creditors | 67,889 | 56,853 |
| Amounts owed to group undertakings | 8,691 | 10,182 |
| Group tax relief | 9,758 | 5,000 |
| Other tax and social security | 6,993 | 6,158 |
| Other creditors | 25,313 | 26,234 |
| Accruals and deferred income | 274,789 | 235,930 |
| | 393,433 | 340,357 |

Amounts owed to group undertakings relate primarily to charges owed to First Rail Holdings Limited, payment terms on all intercompany transactions are immediate.

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

| | Legal & Other £'000 | Total £'000 |
|--|---------------------------|----------------|
| At 1 April 2016 | 7,562 | 7,562 |
| Charged to the profit and loss account | 1,166 | 1,166 |
| Utilised in the year | (5,547) | (5,547) |
| Transfer from provisions greater than one year | 5,180 | 5,180 |
| At 31 March 2017 | 8,361 | 8,361 |

Provisions for liabilities and charges falling due with one year relate to planned restructuring £3.0m, rolling stock dilapidations £5.1m and property dilapidations £0.3m due within one year.

The utilization of £5.5m represents payments made against the current liability of the preceding year.

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

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

| | Legal & Other £'000 | Total £'000 |
|---|---------------------------|----------------|
| At 1 April 2016 | 18,959 | 18,959 |
| Charged to the profit and loss account | 7,502 | 7,502 |
| Transfer to provisions less than one year | (5,180) | (5,180) |
| At 31 March 2017 | <u>21,281</u> | <u>21,281</u> |

During 2015/16 a provision greater than one year was established relating to planned restructuring at specific First Greater Westerns engineering depots arising from the substantial fleet upgrade. The new Intercity Express trains will not be maintained by the company. The value of this provision increased during 2016/17 to £13.5m, this provision has been calculated based on the number of colleagues involved and the potential obligation this creates. This provision is partly offset by a long-term receivable which forms part of our franchise agreement, reference note 12. Also included within this note are provisions for property dilapidations £4.8m and rolling stock dilapidations £3.0m. All the provisions are expected to be fully utilised by 31 March 2019.

19. Called up share capital

| | 2017 £ | 2016 £ |
|---|--------------|--------------|
| Authorised | | |
| 1,000 ordinary shares of £1 each | <u>1,000</u> | <u>1,000</u> |
| Allotted, called up and fully paid | | |
| 1 ordinary share of £1 each | <u>1</u> | <u>1</u> |

20. Dividend

Dividend distribution to the company shareholder First Rail Holdings Limited is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company shareholders. During 2016/17 no final dividend was paid to First Rail Holdings Limited (2016: £19m), the company's immediate controlling entity. An interim dividend of £30m (2016: £20m) was paid during the year, again to First Rail Holdings Limited.

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

21. Commitments

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

| | 2017 £'000 | 2016 £'000 |
|---------------------------------|---------------|---------------|
| Contracted for but not provided | 86,098 | 66,493 |

Capital commitments primarily relate to the exam schedule on our train vehicles, fleet depot development and car park expansion programmes. Further capital commitments have been made as part of our new franchise agreement with the DfT.

Operating leases

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

| | 2017 £'000 | 2016 £'000 |
|--------------------------|---------------|---------------|
| Plant and machinery | 651 | 2,075 |
| Track and station access | 98,990 | 93,928 |
| Hire of rolling stock | 61,091 | 57,660 |
| Other assets | 2,306 | 2,359 |
| | 163,038 | 156,022 |

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

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Within one year | 270,085 | 168,598 |
| In the second to fifth years inclusive | 500,981 | 773,802 |
| After five years | - | - |
| | 771,066 | 942,400 |

Included in the above commitments are contracts held with Network rail for access to the railway infrastructure track, stations and depots of £205.5m (2016: £297.7m). Commitments also exist to lease rolling stock of £560.8m (2016: £637.9m).

First Greater Western Limited

Notes to the financial statements (continued) **Year ended 31 March 2017**

22. Pension liability

Railways Pension Scheme – First Greater Western Section

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the profit and loss in the period ended 31 March 2017 was £0.4m (2016: £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). The scheme is valued triennially, when the cost of future service is calculated and the funding position established. The last valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle in respect of the costs used in these financial statements. The actuarial valuation was updated for 31 March 2017; at this date the market value of the scheme's assets totalled £870m. The actuarial value of these assets was sufficient to cover 68% (2016: 75%) of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 8.04% (2016: 10.64%) for employees and 12.06% (2016: 15.96%) for the employer.

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

During 2015/16, some changes to benefits were agreed to take account of the fact that the RPS would no longer be contracted-out from April 2016. Pensionable pay growth for past service benefits is capped at RPI plus 0.25%. The normal pension age for future service has also increased to 62 for members who are not Protected Persons. The pensionable pay cap resulted in a past service gain in 2015/16 of £14.1m. Given the franchise nature of these operations, the balance sheet franchise adjustment decreased by an offsetting £14.1m, recognising that not all of this benefit will be available to the company, and that the element that will be available will be recognised in full via lower cash obligations during the remainder of the franchise.

In calculating First Greater Western's pension obligation in respect of the RPS, the company's total pension deficit in accordance with 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 Group's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to First Greater Western and recognised in the accounts.

Under the terms of the RPS the employer (60%) and the employees (40%) share any fund deficit. The current service pension cost relating to this scheme in the year was £18.1m.

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

22. Pension liability (continued)

Financial assumptions

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

| | 2017 | 2016 |
|---|-------|-------|
| Rate of increase in salaries | 3.35% | 3.10% |
| Rate of increase of pensions in payment | 2.00% | 1.75% |
| Rate of increase of pensions in deferment | 2.00% | 1.75% |
| Discount rate | 2.80% | 3.70% |
| Inflation assumption - RPI | 3.10% | 2.85% |
| Inflation assumption - CPI | 2.00% | 1.75% |

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

| | 2017 £'000 | 2016 £'000 |
|-----------|----------------|----------------|
| Equities | 97,870 | 187,139 |
| Bonds | - | 208,554 |
| Property | 29,070 | 69,543 |
| Cash Plus | 741,140 | 197,074 |
| Other | 1,550 | 73,558 |
| | <u>869,630</u> | <u>735,868</u> |

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

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Notes to the financial statements (continued) Year ended 31 March 2017

22. Pension liability (continued)

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

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Current service costs | 30,190 | 37,830 |
| Impact of franchise adjustment on operating cost | (12,076) | (15,830) |
| | <u>18,114</u> | <u>22,000</u> |
| Interest cost | 21,232 | 21,205 |
| Interest on assets | (16,398) | (13,900) |
| Impact of franchise adjustment on financing cost | (4,834) | (7,305) |
| | <u>-</u> | <u>-</u> |
| | <u>18,114</u> | <u>22,000</u> |

Actuarial gains and losses have been reported in the statement of comprehensive income. The actuarial gain on scheme assets was £101.6m (2016: gain £48.9m).

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit pension scheme is as follows:

| | 2017 £'000 | 2016 £'000 |
|--|--------------------|------------------|
| Fair value of schemes' assets | 869,630 | 735,868 |
| Present value of defined benefit obligations | <u>(1,280,639)</u> | <u>(980,000)</u> |
| Deficit in the scheme | (411,009) | (244,132) |
| Rail franchise adjustment (60%) | 246,605 | 146,463 |
| Adjustment from employee share of RPS deficits (40%) | <u>164,404</u> | <u>97,669</u> |
| Liability recognised in balance sheet | - | - |
| Related deferred tax (liability) / asset | <u>-</u> | <u>-</u> |
| Net pension liability | <u>-</u> | <u>-</u> |

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

First Greater Western Limited

Notes to the financial statements (continued) Year ended 31 March 2017

22. Pension liability (continued)

| | 2017 £'000 | 2016 £'000 |
|--|------------------|----------------|
| At start of the year | 980,000 | 990,839 |
| Current service cost | 30,190 | 37,830 |
| Past service gain | - | (14,100) |
| Brass contribution adjustment | (354) | (400) |
| Interest cost | 21,232 | 21,205 |
| Employee share of change in DBO (not attributable to franchise adjustment) | 33,704 | 29,257 |
| Experience (gain) on DBO | (17,500) | (5,248) |
| Loss / (gain) on change of assumptions (financial) | 258,377 | (59,244) |
| Benefit payments | (25,010) | (20,139) |
| At end of the year | <u>1,280,639</u> | <u>980,000</u> |

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

| | 2017 £'000 | 2016 £'000 |
|------------------------------------|----------------|----------------|
| At start of the year | 735,868 | 654,277 |
| Interest income on assets | 16,398 | 13,900 |
| Company contributions | 18,114 | 22,400 |
| Brass contributions | (354) | (400) |
| Employee contributions | 12,076 | 17,224 |
| Employee share of return on assets | 51,565 | 25,129 |
| Gain on assets | 60,973 | 22,615 |
| Benefits paid from schemes | (25,010) | (19,277) |
| At end of the year | <u>869,630</u> | <u>735,868</u> |

Movements in the franchise adjustment were as follows:

| | 2017 £'000 | 2016 £'000 |
|---|------------------|------------------|
| At start of the year | (244,132) | (336,562) |
| Interest on franchise adjustment | (5,419) | (7,305) |
| Employee share of change in DBO | (22,202) | (13,680) |
| Actuarial (loss)/gain on franchise adjustment | (139,256) | 113,415 |
| At end of the year | <u>(411,009)</u> | <u>(244,132)</u> |

The company recognises its share of deficit that it expects to fund over the term of its franchise. This is accounted for by way of a franchise adjustment. Had the company accounted for pensions as if the respective franchise had an indefinite duration, the impact on the financial statements would have been as follows:

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Notes to the financial statements (continued) Year ended 31 March 2017

22. Pension liability (continued)

| | 2017 £'000 | 2016 £'000 |
|--|------------------|------------------|
| Balance sheet | | |
| Pension deficit | (246,605) | (146,463) |
| Intangible assets | - | - |
| Deferred taxation | 41,923 | 29,293 |
| Impact on net assets | <u>(204,682)</u> | <u>(117,170)</u> |
| Income statement | | |
| Franchise adjustment (exc. past service element) | (16,910) | (23,135) |
| Intangible asset amortisation | - | 3,250 |
| Deferred taxation | 2,875 | (4,627) |
| Impact on profit for the period from continuing operations | <u>(14,035)</u> | <u>(24,512)</u> |
| Statement of recognised income and expense | | |
| Actuarial (gains)/losses on franchise adjustment | (139,256) | 113,415 |
| Deferred tax on actuarial losses/(gains) | 23,674 | (22,683) |
| Impact on recognised income and expense | <u>(115,582)</u> | <u>90,732</u> |

23 Ultimate parent company

The directors regard FirstGroup plc, a company incorporated in The United Kingdom and registered in Scotland, as the ultimate parent and controlling company, which is the smallest and largest group that includes the company's results and for which group financial statements are prepared.

The company's immediate controlling party is First Rail Holdings Limited.

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