
Company Registration No. 05113733

First Greater Western Limited

Report and Financial Statements

31 March 2015

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First Greater Western Limited

Report and financial statements 2015

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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

During the year the DfT has made progress in line with its UK rail refranchising timetable originally announced in March 2013 and updated periodically since then. As part of this timetable, we were pleased to sign the agreement in March 2015 with the DfT, securing First Greater Western for up to four and a half more years. As a result we will continue to run First Greater Western to at least 1 April 2019, with a further extension of up to one year at the DfT's discretion. This underscores the DfT's confidence in our ability to deliver stability, good value and better services for our passengers during the period in which the Greater Western Mainline modernisation programme is being implemented. The programme involves significant upgrades to infrastructure including signalling and electrification, which will allow for new or refurbished trains on every part of the network, resulting in more frequent and faster journeys and an increase in the number of seats over the period to the end of the decade.

First Greater Western continued its profitable growth under the direct award agreed in October 2013 and continued its strong progress on the fleet and infrastructure projects in conjunction with industry partners. The company made an operating profit of £28.4m (2014: £9.8m) on turnover of £956.3m (2014: £1,068.0m). Passenger receipts showed reported growth of 9.4% (2014: 3.1%) over the year (2014: £895.3m versus 2014: £818.5m). The company will continue to focus on growing revenue and on its addressable cost base in the year ahead.

We continue to work closely with Network Rail where we can in order to both help them reduce infrastructure issues and also to ensure upgrades are delivered in an efficient manner which causes the least possible disruption to our passengers.

Amongst the infrastructure upgrades we are currently involved in the £7.5bn Greater Western Mainline upgrade in preparation for the introduction of the InterCity Express Programme, Crossrail and a new fleet of local electric trains. This upgrade included the £850m Reading station remodelling project, which finished a year ahead of schedule thanks in part to excellent working relationships with our industry partners. In addition, this year we have been able to deliver important improvements in our timetable, our seating capacity, our station environment and in our free WiFi. These improvements included: an improved service for the South West, providing an earlier morning direct service from London to Plymouth and Cornwall and shaving over 30 minutes off the current quickest journey time; providing 3,000 extra Standard Class seats on High Speed Trains into London Paddington during the morning peak; completion of the operational use of the new station and track layout at Reading; and continuation of our Wi-Fi fitment programme, with our HSTs and Class 180 trains now being Wi-Fi equipped and work getting under way to equip our remaining long term fleet with this capability.

Key Performance Indicators

Train operating performance was not at targeted levels in 2014/15 with our PPM MAA score standing at 88.9% (2014: 87.8%). This was primarily due to the impact of Network Rail infrastructure failures.

We were pleased to have improved our National Passenger Survey Overall Satisfaction score to 81% in Spring 2015, an improvement of 1 percentage point over the previous year's result. This was achieved despite our train operating performance falling short of the standards expected from our customers due to Network Rail's infrastructure performance. We are continuing to work with Network Rail to help improve the resilience of their infrastructure to help address this. We have seen significant rises in many aspects of the Overall Station environment, reflecting our commitment to invest in our stations.

First Greater Western's average headcount in the year increased to 5,608 (2013/14 5,300), an increase of 5.8% 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.

First Greater Western Limited

Strategic report (continued)

Principal risks and uncertainties

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

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

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

Rail franchise agreements

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

Information Technology

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

Political and regulatory issues

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

First Greater Western Limited

Strategic report (continued)

Competition

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

Customer Service

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

Pensions

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

Employee costs and relations

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

Fuel costs

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

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.

First Greater Western Limited

Strategic report (continued)

Economy

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

Financial matters

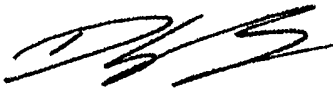
The results for the year are given in the profit and loss account on page 10.

A final dividend of £30m (2014: £nil) was paid to First Rail Holdings Limited, the company's immediate controlling entity. An interim dividend of £20m (2014: £nil) was paid during the year, again to First Rail Holdings Limited.

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. Although certain risks, for example, fuel price, are hedged on a group basis, the company does not enter directly into any derivative financial instruments.

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



David Gausby
Director

Date: 25 June 2015

Milford House
1 Milford Street
Swindon
SN1 1HL

First Greater Western Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2015.

Directors

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

Directors who held office throughout the year:

Dr Benjamin Caswell

David Gausby

Andrew Mellors

Clive Burrows

Mark Hopwood

Benjamin Rule

Martin Stoolman

Susan Evans

Matthew Golton

Hugh Clancy

Vernon Barker (resigned 17 April 2015)

Diane Burke

Employee involvement

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

Disabled persons

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

Going concern

Following successful negotiation with the DfT an agreement was reached to enter into a Direct Agreement with the company for a new franchise with duration of up to four and a half more years. As a result we will continue to run First Greater Western to at least 1 April 2019, with a further extension of up to one year at the DfT's discretion. The directors have considered the going concern assumption given the current economic climate, the Direct Agreement to at least 1 April 2019, and have formed the conclusion that there is a reasonable expectation that the company will continue to operate in the foreseeable future, being at least 12 months from the date of approving these financial statements. The directors have considered the company forecasts and parent company commitment in forming this judgement.

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

First Greater Western Limited

Directors' report (continued)

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



David Gausby
Director

Date: 25 June 2015

Milford House
1 Milford Street
Swindon
SN1 1HL

First Greater Western Limited

Statement of directors' responsibilities

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

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

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

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

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

~~We have audited the financial statements of First Greater Western Limited for the year ended 31 March 2015 which~~ comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholder's funds, the statement of total recognised gains and losses and the related notes 1 to 24. 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).

This report is made solely to the company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Statement of Directors' Responsibilities, 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 Practice Board's Ethical Standards for Auditors.

Scope of the audit of 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

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 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 matters prescribed in the Companies Act 2006


In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

~~Matters on which we are required to report by exception~~

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

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


25th June 2015
Mark Tolley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountant and Statutory Auditor
London, United Kingdom

First Greater Western Limited

Profit and loss account

Year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Turnover	2	956,329	1,067,970
Operating costs			
- General		(920,802)	(1,059,422)
- Restructuring and other exceptional costs	4	-	4,577
- Intangible asset amortisation		(7,150)	(3,300)
Total operating costs	3	(927,952)	(1,058,145)
Operating profit		28,377	9,825
Net interest receivable	8	9,509	9,834
Profit on ordinary activities before taxation	9	37,886	19,659
Tax charge on profit on ordinary activities	10	(8,254)	(4,456)
Retained profit for the year, transferred to reserves	20	29,632	15,203

All activities relate to continued operations.

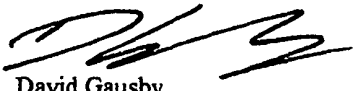
First Greater Western Limited

Balance sheet

At 31 March 2015

	Notes	£'000	2015 £'000	£'000	2014 £'000
Assets employed:					
Fixed assets					
Intangible assets	11		3,250		10,400
Tangible assets	12		52,532		47,168
			<u>55,782</u>		<u>57,568</u>
Current assets					
Stocks	13	15,251		15,989	
Debtors	14	90,494		85,837	
Cash at bank and in hand	15	171,138		147,029	
		<u>276,883</u>		<u>248,855</u>	
Creditors: amounts falling due within one year	16	<u>(314,160)</u>		<u>(257,461)</u>	
Net current liabilities			<u>(37,277)</u>		<u>(8,606)</u>
Total assets less current liabilities			<u>18,505</u>		<u>48,962</u>
Creditors: amounts falling due after more than one year	17		-		(8,856)
Provisions for liabilities and charges	18		<u>(8,105)</u>		<u>(5,000)</u>
Net assets excluding pension liability			<u>10,400</u>		<u>35,106</u>
Pension liability	22		-		<u>(9,964)</u>
Net assets			<u>10,400</u>		<u>25,142</u>
Financed by:					
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account	20		<u>10,400</u>		<u>25,142</u>
Shareholder's funds			<u>10,400</u>		<u>25,142</u>

The financial statements of First Greater Western Limited, registered number 05113733 were approved by the Board of Directors on 25 June 2015 and were signed on its behalf by:


David Gausby
Director

First Greater Western Limited

Reconciliation of movements in shareholder's funds

Year ended 31 March 2015

	2015 £'000	2014 £'000
Profit for the financial year	29,632	15,203
Shareholder cash contribution	-	46,416
Dividend payments	(50,000)	-
Other recognised gains relating to the year (net)	5,362	5,327
	(15,006)	66,946
Share-based payments	264	245
Net (reduction)/addition to shareholder's funds/(deficit)	(14,742)	67,191
Opening shareholder's funds/(deficit)	25,142	(42,049)
Closing shareholder's funds	10,400	25,142

Statement of total recognised gains and losses

Year ended 31 March 2015

	£'000	2015 £'000	£'000	2014 £'000
Profit for the financial year		29,632		15,203
Actuarial gain relating to the pension scheme	6,702		6,494	
UK deferred taxation attributable to actuarial gain	(1,340)		(1,167)	
		5,362		5,327
Total recognised gains for the year		34,994		20,530

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

1. 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 in accordance with applicable United Kingdom accounting standards on the historical cost basis and on a going concern basis as described in the going concern statement in the Directors' Report on page 5.

(b) Cash flow statement

The company is a wholly-owned subsidiary of FirstGroup plc, a company registered in Scotland. Accordingly, the company has taken advantage of the exemption offered by Financial Reporting Standard 1, enabling it not to produce a cash flow statement as the parent company has included a consolidated cash flow statement within its group financial statements.

(c) Tangible fixed assets and depreciation

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

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

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

(d) Intangible fixed assets and depreciation

The rail franchise agreement intangible asset represents the part of the economic benefit derived from the rail franchise agreement that is realised as a result of recognising our share of the rail pension deficit.

Intangible fixed assets are stated at cost, net of amortisation and any provision for impairment.

Amortisation is provided to write off the cost less residual value of intangible fixed assets over the duration of the franchise.

(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.

(g) Stocks

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

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

1. Principal accounting policies (continued)

(h) 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.

(i) 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 in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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.

(j) Turnover

Turnover in UK Rail includes franchise agreement receipts from the Department for Transport ("DfT"). Payments to the DfT for amounts due under the terms of a franchise are included in operating costs. Turnover also includes amounts attributable to the train operating companies ("TOCs"), predominantly based on models of route usage, by the Railway Settlement Plan in respect of passenger receipts. 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.

(k) 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. Amounts due within 12 months of the balance sheet date are considered to be reliably measured and are therefore included within creditors falling due within one year.

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

1. Principal accounting policies (continued)

(i) 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. 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.

2. Turnover and profit on ordinary activities before taxation

Turnover represents the amounts receivable for services supplied to customers during the year and includes rail support grants and 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.

	2015 £'000	2014 £'000
Passenger receipts	895,332	818,513
Support grants	-	177,394
Other revenue	60,997	72,063
	<u>956,329</u>	<u>1,067,970</u>

3. Operating costs

	Notes	2015 £'000	2014 £'000
Raw materials and consumables		101,851	105,087
Staff costs	5	292,074	263,256
Other external charges		388,321	385,694
Net franchise payments		100,094	295,886
Grant amortisation releases		(13,115)	(18,656)
Restructuring and other exceptional costs	4	-	(4,577)
Depreciation and other amounts written off tangible fixed assets and intangible fixed assets		58,727	60,820
Utilisation of contract provision		-	(29,365)
		<u>927,952</u>	<u>1,058,145</u>

First Greater Western Limited

Notes to the financial statements

~~Year ended 31 March 2015~~

4. Contract provision charge

During 2012/13 the company recorded a provision of £9.9m, charged to the profit and loss account. This was due to incremental losses following the DfT exercising their option to extend the previous franchise by a further seven rail periods to October 2013. During 2013/14 £4.6m of the prior year provision was not utilised as initially projected, partly due to contractual changes agreed with the DfT and was written back to the profit and loss account.

	2015 £'000	2014 £'000
Contract provision	-	(4,577)
	-	(4,577)

5. Employee numbers and costs

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

	2015 Number	2014 Number
Traincrew including traincrew management	2,890	2,698
Maintenance	1,187	1,158
Customer service	1,289	1,211
Administration	242	233
	5,608	5,300

The aggregate payroll costs of these persons were as follows:

	2015 £'000	2014 £'000
Wages and salaries	245,961	220,145
Social security costs	19,242	17,800
Other pension costs	26,871	25,311
	292,074	263,256

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

6. Directors' remuneration

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

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

	2015 £'000	2014 £'000
Aggregate emoluments (excluding pension contributions)	1,559	1,479
	<u>1,559</u>	<u>1,479</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.

	2015 Number	2014 Number
The number of directors who:		
Are members of a defined benefit pension scheme	12	12
	<u>12</u>	<u>12</u>

The emoluments of the highest paid director amounted to:

	2015 £'000	2014 £'000
Aggregate emoluments:		
Basic	203	203
Bonus	128	113
Allowances	10	10
Benefits	2	2
	<u>343</u>	<u>328</u>
Defined benefit scheme		
Accrued pension at end of year	22	19
Accrued lump sum at end of year	13	11
	<u>35</u>	<u>30</u>

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

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

7. 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 as follows:

	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number	SAYE Dec 2013 Options Number	SAYE Dec 2014 Options Number
Outstanding at the beginning of the year	2,176,392	2,508,759	3,099,150	7,360,136	-
Awarded during the year	-	-	-	-	7,493,154
Bonus elements of rights issue	-	-	-	-	-
Exercised during the year	-	-	(4,598)	(43,981)	-
Lapsed during the year	(2,176,392)	(521,026)	(625,076)	(1,306,802)	(63,309)
Outstanding at the end of the year	-	1,987,733	2,469,476	6,009,353	7,429,845
Exercisable at the end of the year	-	1,987,733	-	-	-
Weighted average exercise price (pence)	260.1	221.4	117.3	94.1	97.0
Weighted average share price at date of exercise (pence)	N/A	N/A	122.5	105.9	N/A

The inputs into the Black-Scholes model are as follows:

	SAYE 2015	SAYE 2014
Weighted average share price (pence)	108.9	116.0
Weighted average exercise price (pence)	97.0	94.1
Expected volatility	35%	35%
Expected life	3 years	3 years
Risk-free rate	0.9%	1.0%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous five years. 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.

Allowances have been made for the SAYE schemes for the fact that, amongst a group of recipients some are expected to leave before an entitlement vests. The accounting charge is then adjusted over the vesting period to take account of actual forfeitures, so although the total charge is unaffected by the pre-vesting forfeiture assumption, the timing of the recognition of the expense will be sensitive to it. Fair values for the SAYE include a 10% p.a. pre-vesting leaver assumption whereas the Executive, LTIP and deferred share plans exclude any allowance for the pre-vesting forfeitures.

The group used the inputs noted above to measure the fair value of the new share options.

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 £264,000 (2014: £245,000) relating to equity-settled share-based payment transactions.

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

8. Net interest receivable

	2015 £'000	2014 £'000
<i>Interest payable and similar charges</i>		
Amounts payable to group undertakings	(1,006)	(1,642)
Interest on pension scheme liabilities	(15,789)	(14,270)
Utilisation of interest provision	-	217
	<u>(16,795)</u>	<u>(15,695)</u>
<i>Interest receivable and similar income</i>		
Bank interest	829	291
Return on pension scheme assets	25,475	25,238
	<u>26,304</u>	<u>25,529</u>
Net interest receivable	<u>9,509</u>	<u>9,834</u>

9. Profit on ordinary activities before taxation

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of the annual accounts	113	106
- Deloitte LLP non-audit fee for other services	5	5
Depreciation and other amounts written off tangible and intangible owned assets	58,727	60,820
Rentals payable under operating leases		
- plant and machinery	73,447	72,413
- other operating leases	111,188	169,514
Net rents receivable from property	<u>(4,228)</u>	<u>(5,917)</u>

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

10. Tax charge/(credit) on profit on ordinary activities

	2015 £'000	2014 £'000
Current taxation		
- UK corporation tax charge for the year	-	-
- Group relief payable	12,520	5,238
- Adjustment in respect of prior years	2,905	1,925
Total current taxation	15,425	7,163
Deferred taxation		
- Origination and reversal of timing differences	(2,863)	(734)
- Effect of decrease in tax rate on opening deferred tax balance	-	69
- Adjustment in respect of prior years	(2,860)	(2,554)
	(5,723)	(3,219)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	(1,448)	175
- Effect of decrease in tax rate on opening deferred tax balance	-	337
	(1,448)	512
Total deferred taxation	(7,171)	(2,707)
Total tax charge on profit on ordinary activities	8,254	4,456

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 21% (2014: 23%). The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	2015 %	2014 %
Standard rate of taxation	21.0	23.0
Factors affecting charge		
- Capital allowances less than/(in excess) of depreciation	27.6	57.7
- Other timing differences	(15.5)	(54.1)
- Adjustment in respect of prior years	7.7	9.8
Current taxation rate for the year	40.8%	36.4%

During the period the UK Government enacted legislation to reduce the main rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The impact of this rate reduction to 20% has reduced the deferred tax liability on UK timing differences.

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

11. Intangible fixed assets

	Pension asset £'000
Cost	
At 1 April 2014	13,700
At 31 March 2015	13,700
Amortisation	
At 1 April 2014	(3,300)
Charge	(7,150)
At 31 March 2015	(10,450)
Net book value	
At 31 March 2015	3,250
At 1 April 2014	10,400

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

12. Tangible fixed assets

	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Total £'000
Cost			
At 1 April 2014	248,616	67,326	315,942
Additions	43,061	13,880	56,941
Disposals	(22,292)	-	(22,292)
At 31 March 2015	269,385	81,206	350,591
Accumulated depreciation			
At 1 April 2014	221,799	46,975	268,774
Charge for year	33,499	18,078	51,577
Disposals	(22,292)	-	(22,292)
At 31 March 2015	233,006	65,053	298,059
Net book value			
At 31 March 2015	36,379	16,153	52,532
At 31 March 2014	26,817	20,351	47,168

Included in Other plant and equipment is £3.3m (2014: £13.5m) of construction in progress assets, which are not depreciated until they are brought into use.

First Greater Western Limited

Notes to the financial statements Year ended 31 March 2015

13. Stocks

	2015 £'000	2014 £'000
Spare parts and consumables	15,251	15,989

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

14. Debtors

	Notes	2015 £'000	2014 £'000
Amounts falling due within one year:			
Trade debtors		46,842	42,111
Amounts owed by group undertakings		1,281	61
VAT		18,431	5,998
Other debtors		2,290	1,688
Prepayments and accrued income		14,732	34,784
Deferred tax		6,918	1,195
		<u>90,494</u>	<u>85,837</u>

Deferred tax asset		£'000
At 1 April 2014		1,195
Credit to the profit and loss account	10	5,723
At 31 March 2015	14	<u>6,918</u>

The deferred tax asset consists of the following amounts:

	2015 £'000	2014 £'000
Capital allowances in excess of depreciation	3,935	(281)
Other timing differences	2,983	1,476
Deferred tax asset	<u>6,918</u>	<u>1,195</u>

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

15. Cash at bank and in hand

	2015 £'000	2014 £'000
Bank deposits	171,138	147,029

Cash and cash equivalents include ring-fenced cash of £148.9m (2014: £120.7m). 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

	2015 £'000	2014 £'000
Trade creditors	51,784	74,552
Amounts owed to group undertakings	20,463	21,715
Group tax relief	9,380	-
Other tax and social security	11,611	10,713
Other creditors	25,228	24,287
Accruals and deferred income	195,694	126,194
	314,160	257,461

Amounts owed to group undertakings include a £8.9m (2014: £17.7m) loan from FirstGroup plc. This loan is repayable over seven years and was taken out to fund the high-speed train rolling stock refurbishment programme. The interest rate on the loan is fixed at 7%. The balance of the loan is payable within one year.

17. Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Amounts owed to group undertakings	-	8,856

Amounts owed to group undertakings include a £8.9m loan from FirstGroup plc which is payable within one year. Details of the loan are given in note 16.

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

18. Provisions for liabilities and charges

	Note	Lease costs £'000	Total £'000
At 1 April 2014		5,000	5,000
Charged to the profit and loss account	14	3,105	3,105
At 31 March 2015		<u>8,105</u>	<u>8,105</u>

Provisions for liabilities and charges related to a £3.1m provision charged to the profit and loss account during the year for leasing arrangement arising at the end of the franchise.

19. Called up share capital

	2015 £	2014 £
Authorised		
1,000 ordinary shares of £1	<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. Profit and loss account

	£'000
At 1 April 2014	25,142
Shareholder cash contribution	-
Dividend payments	(50,000)
Share-based payments	264
Retained profit for the year	<u>29,632</u>
Profit and loss account excluding pension liability for the year	5,038
Actuarial gain relating to the pension scheme	6,702
UK deferred taxation attributable to actuarial gain	<u>(1,340)</u>
At 31 March 2015	<u>10,400</u>

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

21. Commitments

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

	2015 £'000	2014 £'000
Contracted for but not provided	60,697	73,800

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

Operating leases

Commitments for payments in the next year under operating leases are as follows:

	2015		2014	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	1,041	145,036	1,533	150,779
Between one and two years	1,868	690,053	678	71,642
	<u>2,909</u>	<u>835,089</u>	<u>2,211</u>	<u>222,421</u>

22. Pension liability

Railways Pension Scheme – First Greater Western Section

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme. The valuation of the scheme was carried out by independent actuaries as at 31 December 2010 in respect of the costs used in these financial statements. The actuarial valuation was updated for 31 March 2013; at this date the market value of the scheme's assets totalled £654m. The actuarial value of these assets was sufficient to cover 66% (2014: 73%) of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 10.64% (2014: 10.64%) for employees and 15.96% (2014: 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.

Under the terms of the Railways Pension Scheme (RPS) the employer (60%) and the employees (40%) share any fund deficit.

The current service pension cost relating to this scheme in the year was £26.9m.

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

22. Pension liability (continued)

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

	2015	2014	2013
Rate of increase in salaries	3.45%	3.65%	3.70%
Rate of increase of pensions in payment	1.85%	2.10%	2.15%
Rate of increase of pensions in deferment	1.85%	2.10%	2.15%
Discount rate	3.50%	4.40%	4.50%
Inflation assumption - RPI	2.95%	3.15%	3.20%
Inflation assumption - CPI	1.85%	2.10%	2.15%

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

	2015 £'000	Value 2014 £'000	2013 £'000
Equities	-	-	-
Bonds	31,341	27,815	26,306
Property	-	-	-
Cash Plus	502,779	441,337	407,549
Private Equity	84,426	70,719	68,413
Other	35,731	32,145	29,592
	<u>654,277</u>	<u>572,016</u>	<u>531,860</u>

The Railways Pension Scheme changed the asset allocation during July 2010 with equities held as part of the growth fund called "Cash Plus", which invests in different return seeking assets.

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

	Notes	2015 £'000	2014 £'000
Current service costs	5	26,871	25,311
Interest cost		20,922	19,377
Expected return on scheme assets		(25,475)	(25,238)
Interest credit on franchise adjustment		(5,133)	(5,107)
		<u>(9,686)</u>	<u>(10,968)</u>
		<u>17,185</u>	<u>14,343</u>

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual gain on scheme assets was £17.1m (2014: loss £5.4m).

First Greater Western Limited

Notes to the financial statements

Year ended 31 March 2015

22. Pension liability (continued)

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

	2015 £'000	2014 £'000
Fair value of schemes' assets	654,277	572,016
Present value of defined benefit obligations	(990,839)	(782,605)
Deficit in the scheme	(336,562)	(210,589)
Rail franchise adjustment (60%)	201,937	116,650
Adjustment from employee share of RPS deficits (40%)	134,625	84,083
Liability recognised in balance sheet	-	(9,856)
Related deferred tax (liability) / asset	-	(108)
Net pension liability	-	(9,964)

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

	2015 £'000	2014 £'000
At start of the year	782,605	725,494
Current service cost	26,871	25,311
Brass contribution adjustment	(412)	(450)
Interest cost	20,922	19,377
Employee share of change in DBO (not attributable to franchise adjustment)	92,641	31,433
Actuarial loss	91,582	2,910
Benefit payments	(23,370)	(21,470)
At end of the year	990,839	782,605

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

	2015 £'000	2014 £'000
At start of the year	572,016	531,860
Expected return on assets	25,475	25,238
Company contributions	20,339	18,954
Brass contributions	(412)	(450)
Employee contributions	14,933	12,574
Employee share of return on assets	28,157	10,725
Gain/(loss) on assets	17,139	(5,415)
Benefits paid from schemes	(23,370)	(21,470)
At end of the year	654,277	572,016

First Greater Western Limited

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22. Pension liability (continued)

Movements in the franchise adjustment were as follows:

	2015 £'000	2014 £'000
At start of the year	(194,416)	(184,652)
Cessation of franchise	-	195,626
New franchise	-	(172,800)
Interest on franchise adjustment	(5,133)	(5,107)
Employee share of change in DBO	(56,858)	(13,036)
Actuarial gain on franchise adjustment	(80,155)	(14,447)
At end of the year	<u>(336,562)</u>	<u>(194,416)</u>

History of experience adjustments is as follows:

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Fair value of scheme assets	654,277	572,016	531,860	481,318	461,462
Present value of defined benefit obligations	(990,839)	(782,605)	(725,494)	(622,686)	(566,894)
Rail franchise adjustment (60%)	201,937	116,650	110,835	74,340	46,353
Adjustment for employee share of RPS deficit (40%)	<u>134,625</u>	<u>84,083</u>	<u>75,960</u>	<u>54,967</u>	<u>40,998</u>
Deficit in the schemes	<u>-</u>	<u>(9,856)</u>	<u>(6,839)</u>	<u>(12,061)</u>	<u>(18,081)</u>
Experience (loss) or gain on scheme assets:					
Amount (£000)	17,139	(5,415)	(895)	(18,177)	(4,407)
Percentage of scheme assets (%)	4.4%	(1.6%)	(0.3%)	(6.3%)	(1.6%)
Experience gain or (loss) on scheme liabilities:					
Amount (£000)	(15,685)	1,557	(2,797)	2,563	(4,128)
Percentage of the present value of scheme liabilities (%)	(2.6%)	0.3%	(0.6%)	0.7%	(1.2%)
Experience gain or (loss) on scheme liabilities after franchise adjustment:					
Amount (£000)	64,470	16,004	30,242	27,950	(47,101)
Percentage of the present value of scheme liabilities (%)	10.8%	3.4%	6.9%	7.5%	(13.8%)

First Greater Western Limited

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Year ended 31 March 2015

22. Pension liability (continued)

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:

	2015 £'000	2014 £'000	2013 £'000
Balance sheet			
Pension deficit	(201,937)	(116,650)	(110,835)
Intangible assets	(3,250)	(10,400)	-
Deferred taxation	40,387	26,753	25,492
Impact on net assets	(164,800)	(100,297)	(85,343)
Income statement			
Unwinding of discount on franchise adjustment	(5,133)	(5,107)	(3,457)
Intangible asset amortisation	7,150	3,300	-
Deferred taxation	(1,027)	361	795
Impact on profit for the period from continuing operations	990	(1,446)	(2,662)
Statement of recognised income and expense			
Actuarial (gains)/losses on franchise adjustment	(80,155)	(14,447)	(33,039)
Deferred tax on actuarial (gains)/losses	16,031	2,889	7,598
	(64,124)	(11,558)	(25,441)

23. Related party transactions

As a wholly owned member of the FirstGroup plc group, the company is taking advantage of the exemption under FRS8 not to disclose transactions with group companies that are related parties.

24. Ultimate parent company

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

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

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