Company Registration No. 05113733

First Greater Western Limited

Report and Financial Statements

31 March 2014

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First Greater Western Limited

Report and financial statements 2014

Contents

First Greater Western Limited

Strategic report

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

Principal activities

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

Business review and future outlook

Following the review of the re-franchising programme completed in 2012/13, the DfT announced a new timetable in March 2013 which was subsequently updated in April 2014. As part of this new timetable, we agreed shorter direct awards with the DfT to run the First Greater Western franchise for an additional two years until September 2015, securing continuity of rail services for passengers and retaining our experience in managing the impact of the multi-billion pound investment programme already underway on these networks. We are currently working with the Department to explore whether a longer direct award with First Greater Western may offer better value for money and better services for passengers during the significant programme of works to improve services on the Greater Western network.

First Greater Western moved from a loss-making position to normal commercial terms under the direct award agreed in October 2013 following strong progress on the fleet and infrastructure projects in conjunction with industry partners. The company made an operating profit of £9.8m (2013: £20.6m loss) on turnover of £1,068.0m (2013: £1,130.3m). Passenger receipts showed reported growth of 3.1% (2013: 6.0%) over the year (2014: £818.5m versus 2013: £793.9m). Under the terms of the company's contract with Network Rail the closure of the line at Dawlish and the other flooding related disruption was compensated by Network Rail. The company will continue to focus 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. By far the most visible impact of infrastructure failures were the various incidents associated with the severe winter weather in December 2013 and February 2014, which led to significant and high profile damage to the Great Western Mainline at Dawlish, Bridgwater and Maidenhead. We worked closely with Network Rail as they undertook repairs to the line at Dawlish, during which time trains were unable to travel between Exeter and Plymouth. We introduced a revised timetable and our rail replacement bus teams were able to provide comprehensive support including an innovative high quality direct coach link between Exeter and key Cornish towns and cities. The line reopened on 4 April 2014.

Amongst the infrastructure upgrades we are currently involved in are the £7.5bn Great Western Mainline upgrade in preparation for the introduction of the InterCity Express Programme, Crossrail and a new fleet of local electric trains. This upgrade includes the £850m Reading station remodelling project, which is due to finish a year ahead of schedule thanks in part to excellent working relationships with our industry partners. Following our success at securing additional services in Wiltshire in partnership with the DfT and local authorities, we began a consultation on improving the timetable between London and the South West for introduction later in the year.

In conjunction with First ScotRail, First Greater Western is leading the largest roll out of free Wi-Fi on the UK rail network. Our Class 180 trains are already Wi-Fi equipped and work is under way to equip HSTs with this capability.

A deed was entered into on 9 October 2013 between First Greater Western Limited and First Rail Holdings Limited, (First Greater Western parent company). First Rail Holdings made a one-off cash contribution to First Greater Western of £46.4m. First Greater Western has sufficient working capital absent the contribution and the contribution will be applied to enhance the capital and reserves position of the company and not for the purposes of the company's trade. First Rail Holdings Limited wishes to confirm that it has not received any asset, right or consideration in return for the contribution and that it has no entitlement whatsoever to any repayment of the contribution.

First Greater Western Limited

Strategic report

Key Performance Indicators

Train operating performance was not at targeted levels in 2013/14 with our PPM MAA score standing at 87.8% (2013: 89.1%). This was primarily due to the impact of infrastructure failures associated with the severe winter weather in December 2013 and February 2014. These led to significant and high profile damage to the Great Western Mainline at Dawlish, Bridgwater and Maidenhead and resulted in the severing of the line between Exeter and Plymouth. We worked closely with Network Rail as they rebuilt the section of track to re-open in April. In the meantime, we introduced a revised timetable and operated a fleet of replacement buses as well as direct coaches between Exeter and key locations in Cornwall. We eased ticket restrictions at times of the worst disruption and enhanced our provision of customer assistance personnel. We also created an online microsite to provide customers with updates on disruption works. Employees from all of FirstGroup's train operating companies and other parts of the Group volunteered to help station and on-board colleagues. We worked closely with Network Rail as they undertook repairs to the line at Dawlish, during which time trains were unable to travel between Exeter and Plymouth. The line reopened on 4 April 2014.

We were pleased to have maintained our National Passenger Survey score of 80% in Autumn 2013 at the same level as the previous survey. Clearly, the provision of timely services was impacted by severe weather conditions in the survey period, compounded by Network Rail infrastructure challenges. With our train operating performance falling dramatically during these times, we realise that our ability to deliver services fell short of the standards expected from our customers. 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 the Overall Station environment, reflecting our commitment to invest in our stations, and follows investment of over £85 million during the previous franchise.

First Greater Western's average headcount in the year increased to 5,300 (2012/13 5,081), an increase of 4.3% 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

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. 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. As discussed in the business review and future outlook section of the Strategic Report First Great Western Limited agreed a shorter direct award with the DfT to run the First Great Western franchise for an additional two years until September 2015. We also stated we are in discussion with the DfT to explore whether a longer direct award will offer better value for money and improved services for passengers.

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.

Legislation and regulation

Our business is subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulations or other laws could adversely impact the results of our operations. To help mitigate the risk of

Strategic report

Legislation and regulation (continued)

legislative or regulatory changes the company and FirstGroup plc regularly lobbies both government and transport bodies.

Customer Service

First Great 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.

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.

Fuel costs

Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to arise 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. 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

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.

Financial matters

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

The directors have not recommended the payment of a final dividend (2013: £nil); no interim dividend was paid during the year (2013: £nil).

First Greater Western Limited

Strategic report

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

Dr Benjamin Caswell
Director

Date: 19 June 2014

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 2014.

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	Martin Stoolman
David Gausby	Susan Evans
Andrew Mellors	Matthew Golton
Clive Burrows	Hugh Clancy
Mark Hopwood	Vernon Barker

Directors appointed during the year: Benjamin Rule (appointed 3 June 2013) and Diane Burke (appointed 4 September 2013)

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

The DfT published its Rail Franchising Programme at the end of March 2013 and 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 25 rail reporting periods and a franchise end date of 20 September 2015. The directors have considered the going concern assumption given the current economic climate, the Direct Agreement to September 2015, 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. The parent company has provided the directors of the company with a written letter of support, confirming that it will make available such funds as may be required to enable the company to meet its obligations for a period of at least 12 months from the signing date of these financial statements. The directors have made enquiries and understand that the parent company has adequate resources available to provide this financial support.

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. The company is also working with the DfT to explore whether a longer direct award with First Great Western may offer better value for money and better services for passengers during the significant programme of works to improve services on the Greater Western network.

First Greater Western Limited

Directors' 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

Date: 19 June 2014

Milford House
1 Milford Street
Swindon
SN1 1HL

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 2014 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 2014 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.

Mark Tolley

Mark Tolley (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountant and Statutory Auditor
London, United Kingdom
19 June 2014

First Greater Western Limited

Profit and loss account
Year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Turnover	2	1,067,970	1,130,274
Operating costs			
- General		(1,059,422)	(1,140,976)
- Restructuring and other exceptional costs	4	4,577	(9,900)
- Intangible asset amortisation		(3,300)	-
Total operating costs	3	(1,058,145)	(1,150,876)
Operating profit/(loss)		9,825	(20,602)
Net interest receivable	8	9,834	10,613
Profit/(loss) on ordinary activities before taxation	9	19,659	(9,989)
Tax (charge)/credit on profit/(loss) on ordinary activities	10	(4,456)	30
Retained profit/(loss) for the year, transferred to/(from) reserves	20	15,203	(9,959)

All activities relate to continued operations.

First Greater Western Limited

Balance sheet
At 31 March 2014

	Notes	£'000	2014 £'000	£'000	2013 £'000
Assets employed:					
Fixed assets					
Intangible assets	11		10,400		-
Tangible assets	12		47,168		60,396
			57,568		60,396
Current assets					
Stocks	13	15,989		15,553	
Debtors					
- due within one year	14	85,837		89,775	
Cash at bank and in hand	15	147,029		20,294	
		248,855		125,622	
Creditors: amounts falling due within one year	16	(257,461)		(220,777)	
Net current liabilities			(8,606)		(95,155)
Total assets less current liabilities			48,962		(34,759)
Creditors: amounts falling due after more than one year	17		(8,856)		-
Provisions for liabilities and charges	18		(5,000)		(2,024)
Net assets/(liabilities) excluding pension liability			35,106		(36,783)
Pension liability	22		(9,964)		(5,266)
Net assets/(liabilities)			25,142		(42,049)
Financed by:					
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account	20		25,142		(42,049)
Shareholder's funds/(deficit)			25,142		(42,049)

The financial statements of First Greater Western Limited, registered number 05113733 were approved by the Board of Directors on 19 June 2014 and were signed on its behalf by:

B J —

Dr Benjamin Caswell
Director

First Greater Western Limited

Reconciliation of movements in shareholder's funds
Year ended 31 March 2014

	2014 £'000	2013 £'000
Profit/(loss) for the financial year	15,203	(9,959)
Shareholder cash contribution	46,416	-
Other recognised gains/(losses) relating to the year (net)	5,327	(780)
	66,946	(10,739)
Share-based payments	245	293
Net addition/(reduction) to shareholder's funds/(deficit)	67,191	(10,446)
Opening shareholder's deficit	(42,049)	(31,603)
Closing shareholder's funds/(deficit)	25,142	(42,049)

Statement of total recognised gains and losses
Year ended 31 March 2014

	£'000	2014 £'000	£'000	2013 £'000
Profit/(loss) for the financial year		15,203		(9,959)
Actuarial gain/(loss) relating to the pension scheme	6,494		(1,084)	
UK deferred taxation attributable to actuarial gain/(loss)	(1,167)		304	
		5,327		(780)
Total recognised gains/(losses) for the year		20,530		(10,739)

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 basis other than that of 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 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 2014

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 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 2014

1. Principal accounting policies (continued)

(l) Share-based payments

The company's 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/(loss) 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/(loss) 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.

	2014 £'000	2013 £'000
Passenger receipts	818,513	793,893
Support grants	177,394	269,905
Other revenue	72,063	66,476
	1,067,970	1,130,274

3. Operating costs

	Notes	2014 £'000	2013 £'000
Raw materials and consumables		105,087	97,939
Staff costs	5	263,256	239,379
Other external charges		385,694	348,830
Franchise payments		295,886	435,255
Grant amortisation charges		(18,656)	(21,009)
Restructuring and other exceptional costs	4	(4,577)	9,900
Depreciation and other amounts written off tangible fixed assets and intangible fixed assets		60,820	73,432
Utilisation of contract provision		(29,365)	(32,850)
		1,058,145	1,150,876

4. Contract provision charge

The company recorded a provision in 2010/11 in respect of the franchise agreement. This provision reflected the company's best estimate of the likely losses on the franchise over the two years to 31 March 2013, which would arise due to the accelerated write-off of assets dedicated to the First Great Western franchise due to the company's decision not to exercise its option to extend the franchise agreement for a further three years beyond the original franchise end date. The company recorded a further provision of £9.9m in 2012/13, charged to the profit and loss account, due to incremental losses following the DfT exercising their option to extend the 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.

	2014 £'000	2013 £'000
Contract provision	(4,577)	9,900
	(4,577)	9,900

5. Employee numbers and costs

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

	2014 No.	2013 No.
Traincrew including traincrew management	2,698	2,551
Maintenance	1,158	1,135
Customer service	1,211	1,186
Administration	233	209
	5,300	5,081

The aggregate payroll costs of these persons were as follows:

	2014 £'000	2013 £'000
Wages and salaries	220,145	201,976
Social security costs	17,800	16,426
Other pension costs	25,311	20,977
	263,256	239,379

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. Both directors appointed during 2013/14 receive remuneration directly from First Greater Western Limited

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

	2014 £'000	2013 £'000
Aggregate emoluments (excluding pension contributions)	1,479	1,277
Compensation for loss of office	-	162
	1,479	1,439

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.

	2014 Number	2013 Number
The number of directors who:		
Are members of a defined benefit pension scheme	12	11

The emoluments of the highest paid director amounted to:

	2014 £'000	2013 £'000
Aggregate emoluments:		
Basic	203	198
Bonus	113	116
Allowances	10	10
Benefits	2	2
	328	326
Defined benefit scheme		
Accrued pension at end of year	19	16
Accrued lump sum at end of year	11	9

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

7. Share-based payments

Save as you earn (SAYE)

The company's ultimate parent company operates an Inland Revenue 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 Yorkshire Building Society. 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 2009 Options Number	SAYE Dec 2010 Options Number	SAYE Dec 2011 Options Number	SAYE Dec 2012 Options Number	SAYE Dec 2013 Options Number
Outstanding at the beginning of the year	2,092,655	2,284,801	2,530,668	2,957,100	-
Awarded during the year	-	-	-	-	7,411,980
Bonus elements of rights issue	469,111	483,423	533,497	643,399	-
Exercised during the year	-	-	-	(1,049)	-
Lapsed during the year	(2,561,766)	(591,832)	(555,406)	(500,300)	(51,844)
Outstanding at the end of the year	-	2,176,392	2,508,759	3,099,150	7,360,136
Exercisable at the end of the year	-	2,176,392	-	-	-
Weighted average exercise price (pence)	310.0	319.0	271.5	143.9	94.1
Bonus element of rights issue	(57.3)	(58.9)	(50.1)	(26.6)	-
New weighted average exercise price (pence)	252.7	260.1	221.4	117.3	-
Weighted average share price at date of exercise (pence)	N/A	N/A	N/A	122.5	N/A

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

	SAYE 2013 Dec 2014	SAYE 2012 Dec 2012
Weighted average share price (pence)	116.0	188.9
Weighted average exercise price (pence)	94.1	143.9
Expected volatility	35%	35%
Expected life	3 years	3 years
Risk-free rate	1.0%	0.4%
Expected dividend yield	0%	12.5%

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 £245,000 (2013: £293,000) relating to equity-settled share-based payment transactions.

8. Net interest receivable

	2014 £'000	2013 £'000
Interest payable and similar charges		
Amounts payable to group undertakings	(1,642)	(2,245)
Interest on pension scheme liabilities	(14,270)	(13,703)
Utilisation of interest provision	217	2,245
	(15,695)	(13,703)
Interest receivable and similar income		
Bank interest	291	203
Return on pension scheme assets	25,238	24,113
	25,529	24,316
Net interest receivable	9,834	10,613

9. Profit/(loss) on ordinary activities before taxation

	2014 £'000	2013 £'000
Profit/(loss) on ordinary activities before taxation is stated after crediting/(charging):		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of the annual accounts	106	116
- Deloitte LLP non-audit fee for other services	5	5
Depreciation and other amounts written off tangible and intangible owned assets	60,820	73,432
Rentals payable under operating leases		
- plant and machinery	72,413	69,553
- other operating leases	169,514	138,655
Net rents receivable from property	(5,917)	(5,656)

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

	2014 £'000	2013 £'000
Current taxation		
- UK corporation tax charge for the year	-	-
- Group relief receivable/(payable)	5,238	(3,175)
- Adjustment in respect of prior years	1,925	2,937
Total current taxation	7,163	(238)
Deferred taxation		
- Origination and reversal of timing differences	(734)	(824)
- Effect of decrease in tax rate on opening deferred tax balance	69	(76)
- Adjustment in respect of prior years	(2,554)	(518)
	(3,219)	(1,418)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	175	1,451
- Effect of decrease in tax rate on opening deferred tax balance	337	175
	512	1,626
Total deferred taxation	(2,707)	208
Total tax charge/(credit) on profit/(loss) on ordinary activities	4,456	(30)

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 23% (2013: 24%). 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:

	2014 %	2013 %
Standard rate of taxation	23.0	24.0
Factors affecting charge		
- Capital allowances less than/(in excess) of depreciation	57.7	(176.4)
- Other timing differences	(54.1)	184.2
- Adjustment in respect of prior years	9.8	(29.4)
Current taxation rate for the year	36.4%	2.4%

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

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.

11. Intangible fixed assets

	Pension asset £'000
Cost	
At 1 April 2013	26,000
Disposals	(26,000)
Additions	13,700
At 31 March 2014	13,700
Amortisation	
At 1 April 2013	(26,000)
Disposals	26,000
Charge	(3,300)
	(3,300)
Net book value	
At 31 March 2014	10,400
At 1 April 2013	-

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.

12. Tangible fixed assets

	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Total £'000
Cost			
At 1 April 2013	225,997	45,653	271,650
Additions	22,619	21,673	44,292
At 31 March 2014	248,616	67,326	315,942
Accumulated depreciation			
At 1 April 2013	169,562	41,692	211,254
Charge for year	52,237	5,283	57,520
At 31 March 2014	221,799	46,975	268,774
Net book value			
At 31 March 2014	26,817	20,351	47,168
At 31 March 2013	56,435	3,961	60,396

Included in Other plant and equipment is £13.5m (2013: £1.8m) of construction in progress assets, which are not depreciated until they are brought into use.

13. Stocks

	2014 £'000	2013 £'000
Spare parts and consumables	15,989	15,553

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

14. Debtors

	Notes	2014 £'000	2013 £'000
Amounts falling due within one year:			
Trade debtors		42,111	38,512
Amounts owed by group undertakings		61	11,444
VAT		5,998	4,413
Other debtors		1,688	2,209
Other prepayments and accrued income		34,784	33,197
Deferred tax		1,195	-
		85,837	89,775

	Notes	£'000
Deferred tax asset/(liability)		
At 1 April 2013		(2,024)
Credit to the profit and loss account	10	3,219
At 31 March 2014	14	1,195

The deferred tax asset/(liability) consists of the following amounts:

	2014 £'000	2013 £'000
Capital allowances in excess of depreciation	(281)	(5,228)
Other timing differences	1,476	3,204
Deferred tax asset/(liability)	1,195	(2,024)

15. Cash at bank and in hand

	2014 £'000	2013 £'000
Bank deposits	147,029	20,294

Cash and cash equivalents include ring-fenced cash of £120.7m (2013: £20.3m). 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

	2014 £'000	2013 £'000
Trade creditors	74,552	59,584
Amounts owed to group undertakings	21,715	26,875
Other tax and social security	10,713	6,302
Other creditors	24,287	23,580
Contract provision	-	33,942
Accruals and deferred income (including £-m (2013: £0.2m) interest provision)	126,194	70,494
	257,461	220,777

Amounts owed to group undertakings include a £17.7m (2013: £26.6m) 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%. Of the £17.7m loan, £8.9m is payable within one year and £8.9m is payable after more than one year (note 17).

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

	2014 £'000	2013 £'000
Amounts owed to group undertakings	8,856	-

Amounts owed to group undertakings include a £17.7m loan from FirstGroup plc, of which £8.9m is payable after more than one year. Details of the loan are given in note 16.

18. Provisions for liabilities and charges

	Notes	Deferred tax £'000	Lease costs £'000	Total £'000
At 1 April 2013		2,024	-	2,024
(Credited)/charged to the profit and loss account	14	(2,024)	5,000	2,976
At 31 March 2014		-	5,000	5,000

Provisions for liabilities and charges include a £5.0m 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

	2014 £	2013 £
Authorised		
1,000 ordinary shares of £1	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1 each	1	1

20. Profit and loss account

	£'000
At 1 April 2013	(42,049)
Shareholder cash contribution	46,416
Share-based payments	245
Retained profit for the year	15,203
Profit and loss account excluding pension liability for the year	19,815
Actuarial gain relating to the pension scheme	6,494
UK deferred taxation attributable to actuarial gain	(1,167)
At 31 March 2014	25,142

21. Commitments

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

	2014 £'000	2013 £'000
Contracted for but not provided	73,800	24,507

Operating leases

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

	2014 Land and buildings £'000	2014 Other £'000	2013 Land and buildings £'000	2013 Other £'000
Operating leases which expire:				
Within one year	1,533	150,779	477	46,077
Between one and two years	678	71,642	-	135,925
	2,211	222,421	477	182,002

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 2014; at this date the market value of the scheme's assets totalled £572m. The actuarial value of these assets was sufficient to cover 73% (2013: 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% (2013: 10.64%) for employees and 15.96% (2013: 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 £25.3m.

22. Pension liability (continued)

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

	2014	2013	2012
Rate of increase in salaries	3.65%	3.70%	3.75%
Rate of increase of pensions in payment	2.10%	2.15%	1.75%
Rate of increase of pensions in deferment	2.10%	2.15%	1.75%
Discount rate	4.40%	4.50%	4.65%
Inflation assumption - RPI	3.15%	3.20%	2.75%
Inflation assumption - CPI	2.10%	2.15%	1.75%

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

	Expected rate of return			Value		
	2014	2013	2012	2014 £'000	2013 £'000	2012 £'000
Equities	7.50%	8.00%	8.40%	-	-	-
Bonds	4.10%	3.75%	4.25%	27,815	26,306	24,749
Property	6.00%	6.50%	6.40%	-	-	-
Cash Plus	7.50%	8.00%	8.40%	441,337	407,549	372,207
Private Equity	7.50%	8.00%	8.65%	70,719	68,413	61,630
Other	7.21%	7.75%	7.72%	32,145	29,592	22,732
				572,016	531,860	481,318

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	2014 £'000	2013 £'000
Current service costs	5	25,311	20,977
Interest cost		19,377	17,160
Expected return on scheme assets		(25,238)	(24,113)
Interest credit on franchise adjustment		(5,107)	(3,457)
		(10,968)	(10,410)
		14,343	10,567

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual loss on scheme assets was £5.4m (2013: loss £0.9m).

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:

	2014 £'000	2013 £'000
Fair value of schemes' assets	572,016	531,860
Present value of defined benefit obligations	(782,605)	(725,494)
Deficit in the scheme	(210,589)	(193,634)
Rail franchise adjustment (60%)	116,650	110,835
Adjustment from employee share of RPS deficits (40%)	84,083	75,960
Liability recognised in balance sheet	(9,856)	(6,839)
Related deferred tax (liability) / asset	(108)	1,573
Net pension liability	(9,964)	(5,266)

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

	2014 £'000	2013 £'000
At start of the year	725,494	622,686
Current service cost	25,311	20,977
Brass contribution adjustment	(450)	(500)
Interest cost	19,377	17,160
Employee share of change in DBO (not attributable to franchise adjustment)	31,433	47,443
Actuarial loss	2,910	33,028
Benefit payments	(21,470)	(15,300)
At end of the year	782,605	725,494

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

	2014 £'000	2013 £'000
At start of the year	531,860	481,318
Expected return on assets	25,238	24,113
Company contributions	18,954	16,788
Brass contributions	(450)	(500)
Employee contributions	12,574	10,858
Employee share of return on assets	10,725	15,478
Loss on assets	(5,415)	(895)
Benefits paid from schemes	(21,470)	(15,300)
At end of the year	572,016	531,860

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22. Pension liability (continued)

Movements in the franchise adjustment were as follows:

	2014 £'000	2013 £'000
At start of the year	(184,652)	(123,826)
Cessation of franchise	195,626	-
New franchise	(172,800)	-
Interest on franchise adjustment	(5,107)	(3,457)
Employee share of change in DBO	(13,036)	(24,330)
Actuarial gain on franchise adjustment	(14,447)	(33,039)
At end of the year	(194,416)	(184,652)

History of experience adjustments is as follows:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Fair value of scheme assets	572,016	531,860	481,318	461,462	421,898
Present value of defined benefit obligations	(782,605)	(725,494)	(622,686)	(566,894)	(583,945)
Rail franchise adjustment (60%)	116,650	110,835	74,340	46,353	86,203
Adjustment for employee share of RPS deficit (40%)	84,083	75,960	54,967	40,998	63,698
Deficit in the schemes	(9,856)	(6,839)	(12,061)	(18,081)	(12,146)
Experience (loss) or gain on scheme assets:					
Amount (£000)	(5,415)	(895)	(18,177)	(4,407)	47,866
Percentage of scheme assets (%)	(1.6%)	(0.3%)	(6.3%)	(1.6%)	18.9%
Experience gain or (loss) on scheme liabilities:					
Amount (£000)	1,557	(2,797)	2,563	(4,128)	11,301
Percentage of the present value of scheme liabilities (%)	0.3%	(0.6%)	0.7%	(1.2%)	3.2%
Experience gain or (loss) on scheme liabilities after franchise adjustment:					
Amount (£000)	16,004	30,242	27,950	(47,101)	49,306
Percentage of the present value of scheme liabilities (%)	3.4%	6.9%	7.5%	(13.8%)	14.1%

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:

	2014 £'000	2013 £'000	2012 £'000
Balance sheet			
Pension deficit	(116,650)	(110,835)	(74,340)
Intangible assets	(10,400)	-	-
Deferred taxation	26,753	25,492	17,842
Impact on net assets	(100,297)	(85,343)	(56,498)
Income statement			
Unwinding of discount on franchise adjustment	(5,107)	(3,457)	(2,552)
Intangible asset amortisation	3,300	-	612
Deferred taxation	361	795	(314)
Impact on profit for the period from continuing operations	(1,446)	(2,662)	(2,254)
Statement of recognised income and expense			
Actuarial (gains)/losses on franchise adjustment	(14,447)	(33,039)	(25,388)
Deferred tax on actuarial (gains)/losses	2,889	7,598	6,093
	(11,558)	(25,441)	(19,295)

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.