Company Registration No. 5113733

First Greater Western Limited

Report and Financial Statements

31 March 2011

First Greater Western Limited

Report and financial statements 2011

Contents

First Greater Western Limited

Directors' report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2011.

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 2011 the company made the commercial decision not to take up the option to extend its franchise for a further three years beyond the initial franchise term of 2013. The Government has announced franchise reform and major investment in the region including the redevelopment of Reading station, resignalling and electrification of the Great Western Main Line, the Intercity Express Programme and Crossrail. With our unique knowledge of the franchise we believe we are best placed to manage these projects and capture the benefits through a longer-term franchise. We will continue to operate the existing franchise until March 2013 and will meet all our obligations under the Franchise Agreement.

The reliability of infrastructure, particularly in the Thames Valley area, has had a significant impact on operational performance during the year. As a result the Public Performance Measure (PPM) on a moving Annual Average (MAA) basis has reduced to 90.3% (2010: 92.4%). We have been working closely with Network Rail and the new Route Director to address the infrastructure issues and improve performance. Whilst we are pleased to report increased punctuality and reliability trends in February and March there remains more to do.

We are continuing discussions with the DfT about how to increase capacity on our services to address issues of overcrowding, particularly in the London and Thames Valley and Greater Bristol areas. Overall customer satisfaction remained stable at 82% in the National Passenger Survey Autumn 2010.

We continue to see strong growth on branch lines in Devon and Cornwall as a result of improved services and local marketing campaigns. Our successful 'Club 55' promotion, delivered in partnership with other FirstGroup TOC's for the first time this year, continues to deliver growth with a 22% increase in sales compared to the previous promotion in autumn/winter 2009. We continue to promote internet sales and are pleased with the continued growth, an increase of nearly a third year on year.

In December 2010 we successfully launched a new early morning service from London Paddington to Exeter and Torbay. Local business leaders and stakeholders have welcomed this new train service.

Over Christmas and the New Year, Network Rail successfully completed the first stage of its major improvement programme in and around Reading station. This long-term project will ultimately include the construction of a new track layout and four new platforms at the station, allowing more trains to pass through the area, improve punctuality and provide a bigger and more easily accessible station. During the major engineering works, which significantly affected all First Great Western routes, we demonstrated our expertise in operational management working in partnership with Network Rail to effectively manage longer journey times and bus and rail interchanges at key stations.

We are investing £8m to improve our Turbo Class 16x fleet, which operates in London and the Thames Valley and carries more than 36 million passengers every year. The improvement programme includes a GPS-linked public address and Customer Information System to improve the accuracy and clarity of journey information for customers, as well as upgrading toilet and air conditioning systems.

The company made an operating loss of £52.3m (2010: £9.4m profit) on turnover of £902.8m (2010: £845.0m). Passenger receipts showed reported growth of 5.6% over the year (2011: £693.8m versus 2010: £657.0m). The operating loss included a charge during the year of £59.9m in respect of a franchise contract provision relating to the decision not to take up the option to extend the franchise. Previously we had considered that certain changes to the

First Greater Western Limited

Directors' report (continued)

Business review (continued)

franchise in relation to the option period could be negotiated with the Department for Transport. However, as a result of the change in Government and subsequent statements on franchise contractual terms, this now appears unlikely to happen. We have decided that the best commercial strategy is to put ourselves in a position to rebid for this franchise under new economic conditions including the electrification and new rolling stock projects for a start date of 1 April 2013. The provision reflects our best estimate of the likely losses on the franchise over the two years to 31 March 2013, which arise largely due to the accelerated write off of assets dedicated to this contract due to the earlier than expected end date. We expect that the overall cash flow of the company will be broadly neutral over the remaining two years of the franchise.

The company made an operating profit before the contract provision and accelerated intangible asset amortisation (see note 4) of £15.0m (2010: £9.4m); this reflected the successful implementation of a substantial cost reduction programme including a headcount reduction programme. We will continue to focus on our addressable cost base in the year ahead. The revenue support has and will considerably mitigate the impact of any further recession effects on our rail revenues. The company has received revenue support at the 80% level from the DfT since 1 April 2008.

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.

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

Labour costs

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.

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 enters 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.

Directors' report (continued)

Principal risks and uncertainties (continued)

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. The potential impact on the company is reduced due to the existence of a revenue support arrangement.

Financial matters

The results for the year are given in the profit and loss account on page 9.

The directors have not recommended the payment of a final dividend (2010: £nil); no interim dividend was paid during the year (2010: £nil).

Supplier payment policy

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. A number of significant purchases, such as fuel and commitments under operating leases, are paid by direct debit. At 31 March 2011 the company had 25 days' purchases outstanding (2010: 21 days).

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.

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

Directors' report (continued)

Directors (continued)

Directors who resigned in 2010-11;	
Neil Micklethwaite	(resigned 15 May 2010)
Mary Grant	(resigned 31 March 2011)

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.

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 directors have considered the going concern assumption given the current economic climate and the contract provision and have formed the conclusion that there is a reasonable expectation that the company will continue to operate until 31 March 2013. The directors have considered the company forecasts and the financial commitment from the parent company in forming this judgement.

The parent company has provided the directors of the company with a letter 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 date of signing of these financial statements. The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support.

After making enquiries and considering the above facts, the directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence until 31 March 2013. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 auditors 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: 22/6/11

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:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent; and

(c) 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 members of First Greater Western Limited

We have audited the financial statements of First Greater Western Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the reconciliation of movement 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 members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statements, 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 directors' report to identify material inconsistencies with the audited financial statements. 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 2011 and of its loss 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 in 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 Accountants and Statutory Auditor
London, United Kingdom
22 JUNE 2011

First Greater Western Limited

Profit and loss account
Year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Turnover	2	902,842	845,011
Operating costs			
- General		(884,115)	(831,254)
- Restructuring and other exceptional costs	4	(59,857)	(600)
- Intangible asset amortisation		(11,143)	(3,714)
Total operating costs	3	(955,115)	(835,568)
Operating (loss) / profit		(52,273)	9,443
Net interest payable	8	(2,057)	(2,225)
(Loss) / profit on ordinary activities before taxation	9	(54,330)	7,218
Tax credit / (charge) on (loss) / profit on ordinary activities	4,10	12,409	(2,273)
Retained (loss) / profit for the year, transferred to reserves	20	(41,921)	4,945

All activities relate to continuing operations.

First Greater Western Limited

Balance sheet
At 31 March 2011

	Notes	£'000	2011 £'000	£'000	2010 £'000
Assets employed:					
Fixed assets					
Intangible assets	11		-		11,143
Tangible assets	12		83,219		89,371
			83,219		100,514
Current assets					
Stocks	13	14,800		14,238	
Debtors					
- due within one year	14	73,888		61,778	
- due after one year	14	15,447		-	
Cash at bank and in hand	15	75,793		110,018	
		179,928		186,034	
Creditors: amounts falling due within one year	16	(197,194)		(213,735)	
Net current liabilities			(17,266)		(27,701)
Total assets less current liabilities			65,953		72,813
Creditors: amounts falling due after more than one year	17		(35,429)		(44,286)
Provisions for liabilities and charges	18		(50,998)		(3,083)
Net (liabilities) / assets excluding pension liability			(20,474)		25,444
Pension liability	22		(13,380)		(11,867)
Net (liabilities) / assets			(33,854)		13,577
Financed by:					
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account	20		(33,854)		13,577
Shareholder's (deficit) / funds			(33,854)		13,577

These financial statements of First Greater Western Limited registered number 5113733 were approved by the Board of Directors on 22/6/11 2011 and were signed on its behalf by:

Dr Benjamin Caswell
Director

Reconciliation of movements in shareholder's funds
Year ended 31 March 2011

	2011 £'000	2010 £'000
(Loss) / profit for the financial year	(41,921)	4,945
Other recognised losses relating to the year (net)	(5,844)	(161)
	(47,765)	4,784
Share based payments	334	373
Net (reduction) / addition to shareholder's funds	(47,431)	5,157
Opening shareholder's funds	13,577	8,420
Closing shareholder's (deficit) / funds	(33,854)	13,577

Statement of total recognised gains and losses
Year ended 31 March 2011

	£'000	2011 £'000	£'000	2010 £'000
(Loss) / profit for the financial year		(41,921)		4,945
Actuarial loss relating to the pension scheme	(8,218)		(223)	
UK deferred taxation attributable to actuarial gain	2,374		62	
		(5,844)		(161)
Total recognised (losses) and gains for the year		(47,765)		4,784

Notes to the financial statements
Year ended 31 March 2011

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 4.

(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 their estimated useful economic lives or the duration of the franchise as follows:

Other plant and equipment	-	3 to 10 years straight line
Passenger carrying vehicles	-	2 to 10 years straight line

(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 their estimated useful economic lives as follows:

Intangible pension asset	-	7 years straight line

(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.

Notes to the financial statements
Year ended 31 March 2011

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.

Notes to the financial statements
Year ended 31 March 2011

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

(l) **Share based payment**

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.

	2011 £'000	2010 £'000
Passenger receipts	693,767	657,032
Support grants	141,281	133,097
Other revenue	67,794	54,882
	902,842	845,011

3. **Operating costs**

	Notes	2011 £'000	2010 £'000
Raw materials and consumables		74,891	85,402
Staff costs	5	204,264	194,697
Other external charges		325,247	380,770
Franchise payments		249,883	140,702
Restructuring and other exceptional costs	4	59,857	600
(Profit) / loss on disposal of tangible fixed assets		(491)	29
Depreciation and other amounts written off tangible fixed assets and intangible fixed assets		41,464	33,368
		955,115	835,568

Notes to the financial statements
Year ended 31 March 2011

4. Restructuring and other exceptional costs

Exceptional costs of £59.9m were charged to the profit and loss account (2010: £0.6m). The exceptional costs included a contract provision principally relating to accelerated depreciation following our commercial decision not to take up an option to extend the franchise for a further three years. The company intends to bid for the new long-term Greater Western franchise reflecting the changed environment including significant Government investment in the region. Provisions were also raised to account for intangible and interest charges for the remaining two years of the franchise to 31 March 2013. The provision reflects our best estimate of the likely losses on the franchise over the two years to 31 March 2013 which arise largely due to the accelerated write off of assets dedicated to this contract due to the earlier than expected end date.

	Notes	2011 £'000	2010 £'000
Contract provision		59,857	-
Restructuring costs		-	600
		59,857	600
Accelerated intangible asset charge	11	7,429	-
Accelerated interest charge	8	5,335	-
		72,621	600

The tax effect of these exceptional items was a credit of £18.9m (2010: £0.17m).

5. Employee numbers and costs

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

	2011 No.	2010 No.
Traincrew including traincrew management	2,349	2,141
Maintenance	1,079	1,089
Customer service	1,172	1,435
Administration	184	175
	4,784	4,840

The aggregate payroll costs of these persons were as follows:

	2011 £'000	2010 £'000
Wages and salaries	172,060	168,230
Social security costs	12,814	12,290
Other pension costs	19,390	14,177
	204,264	194,697

Notes to the financial statements
Year ended 31 March 2011

6. Directors' remuneration

Certain directors 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:

	2011 £'000	2010 £'000
Aggregate emoluments (excluding pension contributions)	1,253	1,075
Compensation for loss of office	88	-
	1,341	1,075

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.

	2011 Number	2010 Number
The number of directors who:		
Are members of a defined benefit pension scheme	10	11

The emoluments of the highest paid director amounted to:

	2011 £'000	2010 £'000
Aggregate emoluments	308	286
Defined benefit scheme		
Accrued pension at end of year	9	3
Accrued lump sum at end of year	5	6

In 2010 the highest paid director became entitled to receive shares under the FirstGroup long-term incentive plan.

First Greater Western Limited

Notes to the financial statements
Year ended 31 March 2011

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 in December 2002, December 2003, December 2004, April 2006, December 2006, December 2007, December 2008, December 2009 and December 2010. 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 April 2006 Options No.	SAYE Dec 2006 Options No.	SAYE Dec 2007 Options No.	SAYE Dec 2008 Options No.	SAYE Dec 2009 Options No.	SAYE Dec 2010 Options No.
Outstanding at beginning of the year	1,265	1,789,363	1,514,616	2,224,615	2,900,694	-
Awarded during the year	-	-	-	-	-	2,999,495
Exercised during the year	-	-	(1,595)	(2,878)	(3,093)	-
Lapsed during the year	(1,265)	(1,789,363)	(1,389,721)	(272,935)	(271,508)	(33,882)
Outstanding at the end of the year	-	-	**123,300**	**1,948,802**	**2,626,093**	**2,965,613**
Exercisable at the end of the year	-	-	**123,300**	-	-	-
Weighted average exercise price (pence)	325.0	444.0	583.0	371.0	310.0	319.0
Weighted average share price at date of exercise (pence)	N/A	N/A	376.8	382.1	369.3	N/A

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

	SAYE 2011 Dec 2010	SAYE 2010 Dec 2009
Weighted average share price (pence)	387.0	395.0
Weighted average exercise price (pence)	319.0	310.0
Expected volatility	35%	35%
Expected life	3 Years	3 Years
Risk-free rate	1.4%	2.0%
Expected dividend yield	4.8%	4.8%

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

Notes to the financial statements
Year ended 31 March 2011

7. **Share based payments (continued)**

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 £334,000 (2010: £373,000) relating to equity-settled share-based payment transactions.

8. **Net interest payable**

	Notes	2011 £'000	2010 £'000
Interest payable			
Amounts payable to other group undertakings		(4,232)	(4,869)
Other interest payable		(4)	-
Interest on pension scheme liabilities		(14,864)	(13,129)
Accelerated charge for future years	4	(5,335)	-
		(24,435)	(17,998)
Interest receivable			
Bank interest		507	348
Other interest receivable		1	1
Return on pension scheme assets		21,870	15,424
		22,378	15,773
Net interest payable		(2,057)	(2,225)

9. **(Loss)/profit on ordinary activities before taxation**

	2011 £'000	2010 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging / (crediting):		
Auditors' remuneration		
- Deloitte LLP audit fee for the audit of the annual accounts	95	91
- Deloitte LLP non-audit fee for other services	4	7
Depreciation and other amounts written off tangible fixed assets		
- owned assets	30,321	29,654
Amortisation of intangible assets	11,143	3,714
Rentals payable under operating leases		
- plant and machinery	51,142	49,450
- other operating leases	132,317	131,443
Net rents receivable from property	(6,009)	(5,626)

Notes to the financial statements
Year ended 31 March 2011

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

	2011 £'000	2010 £'000
Current taxation		
- UK corporation tax charge for the year	5,195	-
- Group relief payable	-	3,037
- Adjustment in respect of prior years	2,974	897
Total current taxation	8,169	3,934
Deferred taxation		
- Origination and reversal of timing differences	(16,655)	(809)
- Effect of decrease in tax rate on opening deferred tax balance	(93)	-
- Adjustment in respect of prior years	(1,782)	(609)
	(18,530)	(1,418)
Deferred taxation on pension schemes		
- Origination and reversal of timing differences	(2,304)	(243)
- Effect of decrease in tax rate on opening deferred tax balance	256	-
	(2,048)	(243)
Total deferred taxation	(20,578)	(1,661)
Total tax (credit)/charge on profit on ordinary activities	(12,409)	2,273

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 28% (2010: 28%). 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:

	2011 %	2010 %
Standard rate of taxation	28.0	28.0
Factors affecting charge		
- Expenses not deductible for tax purposes	-	(0.5)
- Capital allowances less than / (in excess) of depreciation	0.2	26.8
- Other timing differences	(37.8)	0.6
- Adjustment in respect of prior years	(5.4)	12.4
- Losses brought forward	-	(12.8)
Current taxation rate for the year	(15.0)	54.5

Notes to the financial statements
Year ended 31 March 2011

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

The corporation tax rate reduced from 28% to 26% with effect from 1 April 2011. As the rate change was substantively enacted by the balance sheet date, the effect of the reduction in the UK corporation tax rate was to reduce the deferred tax balance on UK timing differences. The effective tax rate for the period to 31 March 2012 is expected to reduce accordingly.

The UK Government has also announced their intention to subsequently reduce the UK corporation tax rate by 1% per annum to 23% with effect from 1 April 2014. This is likely to have the effect of reducing the effective tax rate in future years.

11. Intangible fixed assets

	Notes	Pension Asset £000
Cost		
At 1 April 2010 and at 31 March 2011		26,000
Amortisation		
At 1 April 2010		14,857
Charge for year		3,714
Accelerated amortisation	4	7,429
At 31 March 2011		26,000
Net book value		
At 31 March 2011		-
At 31 March 2010		11,143

First Greater Western Limited set up an intangible pension asset to the value of £26.0m. This was equivalent to the value of the deficit under FRS 17 on commencement of the franchise, in order to offset the liability arising prior to the franchise term. This asset has been capitalised and was being written off on a straight-line basis over the initial franchise term of seven years. The charge for the year includes an exceptional charge of £7.429m.

Notes to the financial statements
Year ended 31 March 2011

12. Tangible fixed assets

	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Total £'000
Cost			
At 1 April 2010	136,895	23,070	159,965
Additions	14,573	13,926	28,499
Disposals	-	(5,974)	(5,974)
At 31 March 2011	151,468	31,022	182,490
Depreciation			
At 1 April 2010	61,798	8,796	70,594
Charge for year	25,042	5,279	30,321
Disposals	-	(1,644)	(1,644)
At 31 March 2011	86,840	12,431	99,271
Net book value			
At 31 March 2011	64,628	18,591	83,219
At 31 March 2010	75,097	14,274	89,371

13. Stock

	2011 £'000	2010 £'000
Spare parts and consumables	14,800	14,238

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

Notes to the financial statements
Year ended 31 March 2011

14. Debtors

Amounts falling due within one year:	Notes	2011 £'000	2010 £'000
Trade debtors		39,296	31,712
Amounts owed by group undertakings		2,175	922
VAT		3,452	3,802
Other debtors		129	507
Other prepayments and accrued income		28,836	24,835
		73,888	61,778
Amounts falling due after more than one year:			
Deferred tax		15,447	-

Deferred tax asset/(liability)

	Notes	£'000
At 1 April 2010		(3,083)
Credit to the profit and loss account	10	18,530
At 31 March 2011	14	15,447

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

	2011 £'000	2010 £'000
Capital allowances in excess of depreciation	(2,235)	(4,474)
Other timing differences	17,682	1,391
Deferred tax asset/(liability)	15,447	(3,083)

Notes to the financial statements
Year ended 31 March 2011

15. Cash at bank and in hand

	2011 £'000	2010 £'000
Bank deposits	75,793	110,018

Cash and cash equivalents includes ring-fenced cash of £75.8m (2010: £110.0m). Under the terms of the franchise agreement, cash can only be distributed by the company 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

	Notes	2011 £'000	2010 £'000
Trade creditors		42,404	45,048
Amounts owed to group undertakings		13,294	51,988
Group tax relief		2,651	2,715
Corporation tax		5,196	-
Other tax and social security		4,071	4,049
Other creditors		19,272	19,265
Contract provision	4	11,239	-
Accruals and deferred income		99,067	90,670
		197,194	213,735

Amounts included within group undertakings include £8.857m (2010: £8.857m) of the £44.286m (2010: £53.143m) loan from FirstGroup plc (note 17). Prior year amounts owed to group undertakings included a loan of £41.0m from FirstGroup plc. The £41.0m loan was repayable on demand to the extent that the company was not in breach of its financial ratios defined in its franchise agreement. This loan was not drawn at 31 March 2011.

Notes to the financial statements
Year ended 31 March 2011

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

	2011 £'000	2010 £'000
Amounts owed to group undertakings	35,429	44,286
	35,429	44,286

Amounts owed to group undertakings include a loan of £44.286m (2010: £53.143m) 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 £44.286m loan, £8.857m (2010: £8.857m) is payable within one year (note 16) and £35.429m (2010: £44.286m) is due after more than one year.

18. Provisions for liabilities and charges

Contract provision	Note	Deferred tax £'000	Contract provision £'000	Accelerated interest provision £'000	Total £'000
At 1 April 2010		3,083	-	-	3,083
Utilised in the year		(3,083)	-	-	(3,083)
Provided in the year	4	-	48,618	2,380	50,998
At 31 March 2011		-	48,618	2,380	50,998

As detailed in note 4, a contract provision of £59.857m has been recorded in the year. Of the £59.857m, £11.239m is due within one year (note 16) and £48.618m is due after more than one year. Of the £5.335m accelerated interest provision, £2.955m is due within one year (note 16) and £2.38m is due after more than one year.

19. Called up share capital

	2011 £	2010 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1 each	1	1

Notes to the financial statements
Year ended 31 March 2011

20. Profit and loss account

	£'000
At 1 April 2010	13,577
Share based payments	334
Retained loss for the year	(41,921)
Profit and loss account excluding pension asset for the year	(28,010)
Actuarial loss relating to the pension scheme	(8,218)
UK deferred taxation attributable to actuarial loss	2,374
At 31 March 2011	(33,854)

21. Commitments

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

	2011 £'000	2010 £'000
Contracted for but not provided	64,699	61,143

Operating leases

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

	2011		2010	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	252	242	182	349
Between two and five years	273	185,596	596	182,549
	525	185,838	778	182,898

22. Pension scheme

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 2007 in respect of the costs used in these financial statements. The actuarial valuation was updated at 31 March 2011; at this date the market value of the scheme's assets totalled £461.5m. The actuarial value of these assets was sufficient to cover 81% (2010: 72%) 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 10.2% (2010: 10.2%) for employees and 15.3% (2010: 15.3%) for the employer.

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of return on investments will be 7.1% per annum; the rate of earnings increase will be 4.2% per annum and the rate of inflation will be 3.2% 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 £19.4m.

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

	2011	2010	2009
Rate of increase in salaries	4.20%	4.40%	4.10%
Expected return on scheme assets	7.90%	7.90%	7.75%
Rate of increase of pensions in payment	2.40%	3.40%	2.50%
Rate of increase of pensions in deferment	2.40%	3.40%	2.50%
Discount rate	5.50%	5.60%	6.75%
Inflation assumption	3.20%	3.40%	2.60%

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

	2011 Expected rate of return	2010 Expected rate of return	2009 Expected rate of return	2011 Value £'000	2010 Value £'000	2009 Value £'000
Equities	8.85%	9.05%	8.65%	-	279,457	185,328
Bonds	5.20%	5.30%	6.50%	22,756	43,387	32,661
Property	6.85%	7.60%	6.80%	-	37,181	31,572
Cash Plus	8.85%	9.05%	8.65%	360,374	38,557	33,470
Other	8.69%	8.64%	8.25%	78,332	23,316	26,134
				461,462	421,898	309,165

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. 2010 and 2009 figures have been restated to separate Cash Plus from Other.

Notes to the financial statements
Year ended 31 March 2011

22. Pension scheme (continued)

During the year the Government announced its intention to change the measure that it uses for cost of living increases to public sector pensions and to change the basis for the statutory revaluation and indexation of occupational pension schemes in the private sector. Increases to pensions in payment and deferred pensions in the Railways Pension Scheme are expected to be linked to the rise in CPI in future rather than the rise in RPI. As a result of this pension liabilities are £1.0m higher as at 31 March 2011.

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	Notes	2011 £'000	2010 £'000
Current service costs	5	19,390	14,177
Interest cost		17,987	16,177
Expected return on scheme assets		(21,870)	(15,424)
Interest (credit) / charge on franchise adjustment		(3,123)	(3,048)
	8	(7,006)	(2,295)
		12,384	11,882

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual loss on scheme assets was £4.4m (2010: gain £47.9m).

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

	2011 £'000	2010 £'000
Fair value of schemes' assets	461,462	421,898
Present value of defined benefit obligations	(566,894)	(583,945)
Deficit in the scheme	(105,432)	(162,047)
Rail franchise adjustment (60%)	46,353	86,203
Adjustment from employee share of RPS deficits (40%)	40,998	63,698
Liability recognised in balance sheet	(18,081)	(12,146)
Related deferred tax asset	4,701	279
Net pension liability	(13,380)	(11,867)

22. Pension scheme (continued)

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

	2011 £'000	2010 £'000
At start of the year	583,945	407,765
Current service cost	19,390	14,177
Brass contribution adjustment	(600)	(700)
Interest cost	17,987	16,177
Employee share of change in DBO (not attributable to franchise adjustment	(1,257)	77,416
Actuarial (gain) / loss	(39,161)	85,777
Benefit payments	(13,410)	(16,667)
At end of the year	566,894	583,945

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

	2011 £'000	2010 £'000
At start of the year	421,898	309,165
Expected return on assets	21,870	15,424
Company contributions	14,667	15,050
Brass contributions	(600)	(700)
Employee contributions	9,802	9,566
Employee share of return on assets	11,642	42,194
(Loss) / gain on assets	(4,407)	47,866
Benefits paid from schemes	(13,410)	(16,667)
At end of the year	461,462	421,898

Movements in the franchise adjustment were as follows:

	2011 £'000	2010 £'000
At start of the year	(143,677)	(75,255)
Interest on franchise adjustment	(3,123)	(3,048)
Employee share of change in DBO	26,567	(27,369)
Actuarial gain on franchise adjustment	42,973	(38,005)
At end of the year	(77,260)	(143,677)

First Greater Western Limited

Notes to the financial statements
Year ended 31 March 2011

22. Pension scheme (continued)

History of experience adjustments is as follows;

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Fair value of scheme assets	461,462	421,898	309,165	407,728	423,827
Present value of defined benefit obligations	(566,894)	(583,945)	(407,765)	(425,573)	(432,500)
Rail franchise adjustment (60%)	46,353	86,203	45,153	(7,481)	(3,300)
Adjustment for employee share of RPS deficit (40%)	40,998	63,698	38,683	6,977	3,100
Deficit in the schemes	(18,081)	(12,146)	(14,764)	(18,349)	(8,873)
Experience gain or (loss) on scheme assets:					
Amount (£000)	(4,407)	47,866	(88,583)	(30,668)	5,900
Percentage of scheme assets (%)	(1.6%)	18.9%	(47.5%)	(7.5%)	1.4%
Experience gain or (loss) on scheme liabilities:					
Amount (£000)	(4,128)	11,301	31,787	37,445	7,600
Percentage of the present value of scheme liabilities (%)	(1.2%)	3.2%	13.0%	8.8%	1.8%
Experience gain or (loss) on scheme liabilities after franchise adjustment:					
Amount (£000)	(47,101)	49,306	84,932	2,734	5,300
Percentage of the present value of scheme liabilities (%)	(13.8%)	14.1%	34.7%	0.6%	1.2%

Notes to the financial statements
Year ended 31 March 2011

22. Pension scheme (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:

	2011 £'000	2010 £'000	2009 £'000
Balance sheet			
Pension deficit	(46,353)	(86,203)	(45,153)
Intangible assets	-	(11,143)	(14,857)
Deferred taxation	12,052	27,257	16,803
Impact on net assets	(34,301)	(70,089)	(43,207)
Income statement			
Unwinding of discount on franchise adjustment	(3,123)	(3,048)	408
Intangible asset amortisation	11,143	3,714	3,714
Deferred taxation	(4,032)	(186)	(1,154)
Impact on profit for the period from continuing operations	3,988	480	2,968
Statement of recognised income and expense			
Actuarial losses / (gains) on franchise adjustment	42,973	(38,005)	(53,145)
Deferred tax on actuarial (gains) / losses	(11,173)	10,641	14,881
	31,800	(27,364)	(38,264)

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 Great Britain 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.