FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

Company Registered Number: 09111801

FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

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STRATEGIC REPORT
For the year ended 31 March 2017

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

Principal activities

On 1 April 2016, the company commenced operating intercity passenger railway services in the north of England and in Scotland, connecting Manchester and Manchester Airport with Liverpool, Leeds, York, Newcastle, Sheffield, Hull, Preston, Glasgow and Edinburgh.

Business review, future outlook, and going concern

The company started to operate the Transpennine Express franchise on 1 April 2016 for a minimum term of seven years. After this period, the secretary of state has the right to extend for another two years.

Turnover was £241,407,000 (2016: £nil) and operating loss was £25,000 (2016: (£1,107,000)). The result for the year is reflective of the first year of the franchise which has included additional costs relating to restructuring and gearing up the business to accommodate the expanded capacity and new routes to be delivered and served during the course of the franchise. The business anticipates future performance to benefit from passenger growth arising from these initiatives.

On 1 April 2016, the previous operator of the passenger railway services, a fellow subsidiary undertaking, First/Keolis Transpennine Limited, transferred the majority of its operations to the company. This transfer was part of the pre-planned and contractual change to rail franchising in the North of England. The transfer of assets and liabilities and the communication of the transfer requirements to all the respective trading partners, stakeholders and staff, was undertaken successfully.

During this year, we carried 26.8 million customers with growth up 7%, 1.7 million more customers than last year when the services were operated by the previous franchise owner.

We launched and continue to develop our colleague app, 'The Loop', and have been recognised for this great initiative with an 'Award of Excellence' at the Institute of Internal Communications Awards. We have also launched free 'on-board' Wi-Fi and 'on-board' entertainment on the Class 350 fleet, with roll out taking place on the Class 185s later in the year.

We have delivered close to 200 franchise commitments such as new ticket vending machines at our stations and installation of automatic number plate recognition at our car parks. More than £500m is being invested over the course of the franchise, to transform rail services across the region including 220 new carriages, comprising a mix of new Hitachi InterCity trains and a further intercity fleet from Construcciones y Auxiliar de Ferrocarriles (CAF). The first of the new trains will be introduced from summer 2018, providing 13 million more seats, and the remaining rolling stock is being completely refurbished. We are working closely with our industry partners, Network Rail, Rail North and the Department for Transport (DfT) to support these upgrades, which will help us deliver capacity, frequency and journey time improvements for customers.

STRATEGIC REPORT
For the year ended 31 March 2017

Business review, future outlook, and going concern (continued)

The directors have considered the going concern assumption given the current economic climate and have formed the conclusion that there is a reasonable expectation that the company will continue to be a going concern in the foreseeable future. The directors have considered the company forecasts and respective franchise commitments in forming this judgment. After making enquiries and considering the above facts, the directors therefore have a reasonable expectation that the company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Key Performance Indicators

The key performance indicators are as follows:

Train operating performance was 0.21% below targeted levels in 2016/17 with our public performance measure (PPM) moving average score standing at 88.79% (2016: n/a). The final PPM figure was impacted by an employee relations issue with drivers during the year. Performance in the first half of the year averaged 90.05% prior to this issue.

In the latest independent Transport Focus National Rail Passenger Survey, the company achieved 84% customer satisfaction against a target of 85%.

The company measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2017 was 65% (2016: n/a) against a target of 71%. This was a disappointing result, but reflective of the change during refranchising.

STRATEGIC REPORT
For the year ended 31 March 2017

Principal risks and uncertainties

The company will be subject to the following principal risks and uncertainties over the franchise period. As discussed in the business review and future outlook section of the Strategic report, the company started operations as a Train Operating Company on 1 April 2016.

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 four-weekly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Information Technology

The company 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. To mitigate this risk the company has extensive security controls in place which in conjunction with policy and procedures are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

Legislation and regulation

The 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.

Competition

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

STRATEGIC REPORT
For the year ended 31 March 2017

Customer Service
The company's revenues are at risk if it does not continue to provide the level of service expected by customers. On-going engagement with customers and community stakeholders takes place across our network, through stakeholders' events, customer panels, consultations and local partnerships. The Board also monitors customer service KPIs 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. Industrial action could adversely impact customer service and have a financial impact on the company's operations. To mitigate this risk, the company seeks to structure its recruitment and retention policies, training schemes and working practices. Our employees are key to service delivery and therefore it is important that good employee relations are maintained. Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular leadership conferences, employee surveys and the presence of an Employee Director (voted for by the employees to represent them) on the company's board.

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

STRATEGIC REPORT
For the year ended 31 March 2017

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 (being FirstGroup plc and its group companies) basis, the company does not enter directly into any derivative financial instruments.

Approved by the Board of Directors

and signed on behalf of the Board

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

Elizabeth A Collins
Director

DIRECTORS' REPORT
For the year ended 31 March 2017

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2017.

In accordance with section 414C (11) the directors have opted to disclose certain components in the Strategic Report which otherwise would be required to be disclosed in the Directors' Report under section 416.

Matters included in the strategic report

In accordance with s414C (11) of the Companies Act, included in the Strategic Report is information relating to the future developments and going concern of the business which would otherwise be required by Schedule 7 of the 'large and medium sized companies and groups (accounts and reports) regulations 2008' to be contained in a Directors' Report

Results and dividends

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

No dividends were declared during, or after the year (2016: same).

Directors

The directors, who held office throughout the year and to date, unless otherwise stated, are as follows:

Clive Burrows	(appointed 21 April 2016)
Hugh P Clancy	
Elizabeth A Collins	
David C Gausby	(resigned 31 December 2016)
Leo D Goodwin	
Darren C Higgins	
Andrew J McNeil	(appointed 1 April 2016)
Stephen Montgomery	

Employee involvement

Communication with employees is undertaken mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the company council committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests. Employee involvement is extended by the appointment of an employee director nominated by the workforce.

Additional information about employee numbers and costs is found in note 4.

DIRECTORS' REPORT
For the year ended 31 March 2017

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.

Audit information

Each of the directors at the date of approval of this report confirms that:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors to make themselves 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 provisions of s418 of the Companies Act 2006.

Auditor

The company has passed an elective resolution dispensing with the requirement to appoint an auditor annually. Deloitte LLP has indicated its willingness to continue as auditor of the company and is therefore deemed to be re-appointed for a further term.

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

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

Elizabeth A Collins
Director

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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 TRANSPENNINE EXPRESS LIMITED

We have audited the financial statements of First Transpennine Express Limited for the year ended 31 March 2017 which comprise the profit and loss account, the statement of other comprehensive income, the balance sheet, the statement of changes in equity, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland."

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST TRANSPENNINE EXPRESS LIMITED (continued)

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

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.

David Sweeney CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
20 July 2017

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2017

	Note	2017 £000	2016 £000
Turnover	2	241,407	-
Operating Costs	3	(241,432)	(1,107)
Operating loss		(25)	(1,107)
Net interest receivable	7	108	-
Profit/(loss) on ordinary activities before taxation	8	83	(1,107)
Tax (charge)/credit on profit/(loss) on ordinary activities	9	(49)	221
Profit/(loss) for the financial year		34	(886)

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Profit for the financial year		34	(886)
Actuarial gain /(loss) due to scheme assets and liabilities		(40,211)	-
Actuarial gain /(loss) due to rail franchise adjustment		40,211	-
Deferred taxation attributable to actuarial gain		-	-
Other compressive income		-	-
Total Comprehensive Income for the year		34	(886)

BALANCE SHEET
At 31 March 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Intangible assets	10		1,873		-
Tangible assets	11		3,947		-
			5,820		-
Current assets					
Stock	12	143		-	
Debtors	13	30,554		221	
Cash at bank and in hand		44,973		20,000	
		75,670		20,221	
Creditors: amounts falling due within one year	14	(60,112)		(1,107)	
Net current assets			15,558		19,114
Total assets less current liabilities			21,378		19,114
Creditors: amounts falling due after more than one year	14		(19,704)		(19,572)
			1,674		(458)
Provision for liabilities	15		(2,127)		-
Net liabilities excluding pension liability			(453)		(458)
Pension liability	20		-		-
Net liabilities			(453)		(458)
Capital and reserves					
Called up share capital	17		-		-
Profit and loss account			(453)		(458)
Shareholder's deficit			(453)		(458)

The accompanying notes are an integral part of this balance sheet.

These financial statements for First Transpennine Express Limited (Company Number: 09111801) were approved by the Board of Directors on 20 July 2017 and were signed on its behalf by:

Elizabeth A Collins
Director

STATEMENT OF CHANGES IN EQUITY
At 31 March 2017

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2015	-	-	-
Total comprehensive income for the financial year	-	(886)	(886)
Capital contribution arising from interest on loan	-	428	428
Balance at 31 March 2016	-	**(458)**	**(458)**
Total comprehensive income for the financial year	-	34	34
Capital contribution arising from interest on loan	-	(132)	(132)
Share-based payments	-	103	103
Balance at 31 March 2017	-	**(453)**	**(453)**

1 Principal accounting policies

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

(a) Basis of preparation and going concern

The financial statements have been prepared under a historical cost convention and on a going concern basis as described in the going concern statement in the Strategic report on page 2, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of First Transpennine Express Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to share-based payments, presentation of a cash-flow statement, financial instruments and key management compensation.

(b) Tangible fixed assets

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 as follows:

Plant and equipment	-	3 to 8 years straight line

Depreciation/amortisation is not charged on assets under construction

(c) Leases

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.

(d) Taxation

The charge for taxation is based on the profit for the year and is provided at amounts to be paid using the tax rate and laws that have been enacted or substantively enacted by the balance sheet date. The charge takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision is made for deferred tax on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

1 **Principal accounting policies (continued)**

(e) Turnover

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Amounts are credited to the profit and loss account on the provision of services and in the period to which they relate.

(f) Intangible fixed assets

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 five years. Depreciation/amortisation is not charged on assets under construction.

(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.

(h) Employee benefits

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. 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 cost on the net pension scheme liability is shown in net interest receivable. 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.

In calculating First Transpennine Express's pension obligation in respect of the Railway Pension Scheme (RPS), the company's total pension deficit in accordance with FRS 102 Section 28 has been calculated. This deficit is reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the company is not required to fund. The franchise adjustment, which has been calculated by FirstGroup's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flow of the Group's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to First Transpennine Express and recognised in the accounts.

1 Principal accounting policies (continued)

(i) Share based payment

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

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

(j) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

(k) Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(l) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(l) Financial assets and liabilities (continued)

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.
With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(i) Equity instruments
Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(ii) Fair value measurement
The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

1 Principal accounting policies (continued)

(m) Future ticket deferral

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

(n) Provisions

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

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

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

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

i) Critical accounting judgements

Defined benefits pension arrangements

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

ii) Key sources of estimation uncertainty

Contract and franchise accounting

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

ii) Key sources of estimation uncertainty (continued)

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

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

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 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 activity within the United Kingdom.

The company has one principal class of business, namely the provision of passenger transport services.

Turnover can be analysed as follows:

	2017 £000	2016 £000
Passenger services	221,314	-
Arriva north traincrew services	9,338	-
Other	10,755	-
	241,407	-

3 Operating costs (net)

	2017 £000	2016 £000
Station & track access and facilities	38,824	-
Staff costs	59,292	-
External charges	134,392	-
Depreciation (see note 11)	544	-
Amortisation of grants	(133)	-
Restructuring costs	-	1,107
Net Franchise Payment	8,513	-
	241,432	1,107

In the prior year, the company started a restructuring plan to reduce the number of head office employees during this year. The plan was substantially completed in the current year.

4 Employee numbers and costs

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

	2017 No	2016 No
Operations	448	-
Customer services	469	-
Other	149	-
	1,066	-

4 Employee numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	47,777	-
Social security costs	5,026	-
Pension costs (see note 20)	6,489	-
	59,292	-

Pension costs include only those items included within operating costs.

5 Directors' remuneration

The remuneration of the directors during the year was as follows:

	2017 £000	2016 £000
Emoluments (excluding pension contributions)	734	-
Contributions to defined benefit schemes	38	-

Three directors were members of the company's defined benefit scheme (2016: nil).

The emoluments of the highest paid director amounted to:

	2017 £000	2016 £000
Emoluments (excluding pension contributions)	265	-
Defined benefit schemes:		
Accrued pension at year end	46	-
Accrued lump sum at end of year	33	-
	344	-

During the year, the highest paid director became entitled to receive shares under the FirstGroup plc long term incentive plan.

6 Share based payments

Save as you earn (SAYE)

FirstGroup plc ("the Group"), the company's ultimate controlling party, operates an HMRC approved savings related share option scheme. Grants were made in December 2010, December 2011, December 2012, December 2013 and December 2014. 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 Lloyds TSB and 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.

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 £103,000 (2016: nil) relating to equity-settled share-based payment transactions.

7 Net interest receivable

	2017 £000	2016 £000
Income from short term deposits	108	-
	108	-

8 Profit/(loss) on ordinary activities before taxation

	2017 £000	2016 £000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation		
- owned assets	544	-
Amortisation of grants	(133)	-
Rentals payable under operating leases		
- plant and machinery	70,947	-
- other operating leases	17,738	-

	2017 £000	2016 £000
Fees payable to the company's auditor for the audit of the company's annual financial statements	50	-
Total audit fees	50	-
Other services pursuant to legislation:		
- other audit related – regulatory reporting	5	-
Total non-audit fees	5	-
Total	55	-

9 Tax on profit/(loss) on ordinary activities

	2017 £000	2016 £000
Current taxation		
- UK corporation tax charge/(credit) for the year	22	(221)
- Adjustment in respect of prior years	219	-
Total current taxation	241	(221)
Deferred taxation		
- Origination and reversal of timing differences	(4)	-
- Effect of decrease in tax rate on opening deferred tax balance	11	
- Adjustment in respect of prior years	(199)	-
Total deferred taxation	(192)	-
Total tax charge/(credit) on profit on ordinary activities	49	(221)

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

	2017 £'000	2016 £'000
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20% (2016: 20%)	17	(221)
Expenses not deductible for tax purposes	-	-
Prior year adjustments	20	-
Effect of decrease in tax rate on opening deferred tax balance	11	-
Effect of decrease in tax rate on origination and reversal of timing differences	1	-
Total tax charge/(credit) on profit on ordinary activities	49	(221)

The UK Government enacted legislation to reduce the main rate of corporation tax from 20% to 19% from April 2017 and from 19% to 17% from April 2020. The impact of this rate reduction to 17% has reduced the deferred tax asset on UK timing differences

10 Intangible fixed assets

	Software £000
Cost	
At 1 April 2016	-
Addition	1,873
At 31 March 2017	1,873
Amortisation	
At 1 April 2016	-
Charge for year	-
At 31 March 2017	-
Net book value	
At 31 March 2017	1,873
At 31 March 2016	-

Computer Software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation. Costs include software licenses, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software. The £1.873 million represents in progress assets, which are not amortised until the assets are brought into use.

11 Tangible fixed assets

	Plant and equipment £000
Cost	
At 1 April 2016	-
Additions	4,491
At 31 March 2017	4,491
Accumulated depreciation	
At 1 April 2016	-
Charge for year	544
At 31 March 2017	544
Net book value	
At 31 March 2017	3,947
At 31 March 2016	-

Included in Other plant and equipment is £1.5m (2016: nil) of construction in progress assets, which are not depreciated until they are brought into use. This primarily relates to depot improvement works

12 Stock

	2017 £000	2016 £000
Fuel	143	-

The directors consider there is no material difference between the balance sheet value of the stock and its replacement cost.

13 Debtors

	2017 £000	2016 £000
Amounts due within one year		
Trade debtors (including amounts recoverable from Network Rail)	26,167	-
Other debtors (primarily VAT)	3,119	221
Other prepayments and accrued income	1,076	-
Deferred tax asset (note 16)	192	-
	30,554	221

14 Creditors

	2017	2016
	£000	£000
Amounts falling due within one year		
Trade creditors	9,919	-
Amounts owed to group undertakings	963	-
Corporation tax	273	-
Other tax and social security	1,258	-
Other creditors	1,997	1,107
Accruals and deferred income	45,702	-
	60,112	1,107
Amounts falling due after more than one year		
Amounts owed to group undertakings	19,704	19,572
	19,704	19,572

Amounts owed to group undertakings is an interest-free loan repayable in eight equal quarterly instalments from 1 April 2018: £10m repayable in year ending 31 March 2019 and £10m repayable in year ending 31 March 2020. The loan has been valued using a zero rate market curve. The financing shortfall of £132,000 (2016: (£428,000)) has been treated as a capital contribution.

15 Provision for liabilities

	Lease Obligations £000	Total £000
At 1 April 2016	-	-
Acquired upon transfer of franchise	3,004	3,004
Utilised in the period	(877)	(877)
At 31 March 2017	2,127	2,127

Condition audits of the trains were undertaken by the respective leasing companies. The reports from these audits were used to establish the opening provision.

Similarly, landlord audits were undertaken to establish return condition values at each of our office accommodations.

At 31 March 2017, the dilapidation provisions were £2.127 million. This was made up of the liabilities for 3 train fleets, class 170, class 185 and class 350, as well as liabilities at office locations around the network. Remediation work was carried out in the period to remedy any works required to the stations operated by the company and were validated through audits performed by Network Rail.

The remediation work will continue during 2018 as the class 185 fleet is updated and refurbished.

16 Deferred taxation

	£000
Asset at 1 April 2016	-
Credited to Profit and Loss Account	192
Asset at 31 March 2017	192

The closing balance is included within debtors (see note 13) and is expected to be recovered within 12 months.

The deferred tax asset comprises:

	2017 £000	2016 £000
Capital allowances less than depreciation	93	-
Other timing differences	17	-
Losses	82	-
Deferred tax asset	192	-

During the year beginning 1 April 2017, the net reversal of deferred tax assets is expected to reduce the charge to corporation tax for the year by £175,000, mainly due to depreciation, capital allowances and use of available losses.

17 Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

18 Commitments

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

	2017 £'000	2016 £'000
Contracted for but not provided	4,279	-

These capital commitments have been made as part of our new franchise agreement with the DfT.

Operating leases

Future minimum lease payments under non-cancellable operating leases are as follows:

	2017		2016	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Less than one year	5,956	34,820	5,934	27,493
Between one and five years	24,057	333,856	23,962	107,102
Over five years	6,076	100,221	12,127	57,017
	36,089	468,897	42,023	191,612

19 Contingent liabilities

The company had no contingent liabilities at the reporting date (2016: nil).

FirstGroup plc. has provided performance bonds of £15 million (2016: £15 million) backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the Franchise obligations of the company.

FirstGroup plc. has provided parent company support of £84.4 million (2016: £84.4 million), which is not backed by insurance arrangements.

20 Pension scheme

Railways Pension Scheme - Transpennine Express Section

Defined contribution schemes

The company operates a defined contribution retirement benefit schemes for all qualifying employees. The total expense charge to the profit and loss in the period ended 31 March 2017 was £0.1m (2016: £nil).

Defined benefit schemes

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme. The valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle in respect of the costs used in these financial statements.

The actuarial valuation was updated for 31 March 2017; at this date the market value of the scheme's assets totalled £140.24m, £48.18 million for the former First North Western section and £92.06 million for the former Arriva Trains Northern section.

The actuarial value of these assets was sufficient to cover 62% of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 9.64% (2016: nil) for the former First North Western' employees and 10.66% (2016: nil) for the employer. For the former First Arriva Trains Northern' employees, the current contribution rate is 10.12% (2016: nil) and 11.08% (2016: nil) for the employer.

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

The result of this valuation has been used for the purposes of these financial statements.
Total pension costs for 12 months to 31 March 2017 were £6.5 million (2016: nil).

Financial assumptions

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

	2017	2016
	£000	£000
Rate of increase in salaries	3.35%	-
Rate of increase of pensions in payment	2.00%	-
Discount rate	2.80%	-
Inflation assumption – CPI	2.00%	-
Inflation assumption - RPI	3.10%	-

20 Pension scheme (continued)

Mortality assumptions

The assumptions made for current mortality reflect broadly the current experience. This takes into account size of pension and geographic location. An allowance is made for future improvements, based on information currently available on mortality trends.

	2017	2016
	Value £000	Value £000
Property	3,270	-
Private Equity	13,260	-
Other	400	-
Cash plus	123,310	-
	140,240	-

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

	2017 £000	2016 £000
Current service costs	6,489	-
Past service costs/(gain)	(3,840)	-
Impact of franchise adjustment on operating cost	858	-
Total operating charge	3,507	-
Net interest cost	938	-
Impact of franchise adjustment on interest cost	(938)	-
	-	-
	3,507	-

The past service gain arose on the transfer of employees to the Northern franchise (a rail franchise not operated by the company) as part of the new Transpennine and Northern rail franchise route structures operated from 1 April 2016.

20 Pension scheme (continued)

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actuarial gain on scheme assets was £11.652m (2016: nil).

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

The balance sheet position for the company:

	2017 £000	2016 £000
Fair value of schemes' assets	140,240	-
Present value of defined benefit obligations	(227,811)	-
Deficit in the scheme	(87,571)	-
Franchise adjustment (60% employer's share)	52,543	-
Adjustment from employee share of RPS deficits (40%)	35,028	-
Liability recognised in the balance sheet	-	-
Related deferred tax asset/(liability)	-	-
Net pension liability	-	-

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

	2017 £000	2016 £000
Transfer at the start of the franchise	179,810	-
Current service costs	6,489	-
Brass contributions	(108)	-
Effect of settlements	(10,920)	-
Interest cost	3,913	-
Employee share of change in DBO	(464)	-
Actuarial gain	(3,300)	-
Loss on change of assumptions (financial)	55,164	
Benefit payments	(2,773)	-
At the end of the year	227,811	-

20 Pension scheme (continued)

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

	2017 £000	2016 £000
Transfer at the start of the franchise	132,466	-
Interest Income on assets	2,975	-
Employer contributions	3,507	-
Brass contributions	(108)	-
Employee contributions	2,338	-
Employee share of interest income and actuarial gain on assets	6,644	-
Employee share of settlement payment	(4,720)	-
Gain on assets	6,991	-
Benefits paid	(2,773)	-
Settlement payment (after cost sharing)	(7,080)	-
At the end of the year	140,240	-

Movements in the franchise adjustment were as follows:

	2017 £000	2016 £000
Transfer at the start of the franchise	(47,345)	-
Interest on franchise adjustment	(1,051)	-
Employee share of change in BDO	1,036	-
Actuarial gain/ (loss) on franchise adjustment	(40,211)	-
At the end of the year	(87,571)	-

20 Pension scheme (continued)

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:

Balance sheet	2017	2016
	£000	£000
Pension deficit	(52,543)	-
Deferred taxation	8,932	-
Impact on net assets	(43,611)	-
Income statement		
Unwinding of discount on franchise adjustment	(938)	-
Deferred taxation	159	-
Impact on profit for the year	(779)	-
Statement of other comprehensive income		
Actuarial gain/(loss) on franchise adjustment	40,212	-
Deferred on actuarial gain/(loss)	(6,836)	-
Impact on recognised income and expense	33,376	-

21 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.