

FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018



**Company Registered
Number: 09111801**

FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

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STRATEGIC REPORT**For the year ended 31 March 2018**

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

Principal activities

The company operates 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 holds the TransPennine Express franchise until 31 March 2023. After this period, the Secretary of State has the right to extend for another 2 years.

In the year, our turnover increased to £258.6m (2017: £241.4m). Like-for-like passenger revenue growth was 10% and passenger volume growth was 4%. Industry studies suggest the main drivers for recent slowing in growth across the sector include UK macroeconomic uncertainty, modal shift due to sustained lower fuel prices and working practices, and the effect of rail infrastructure upgrade works taking place across the country.

The passenger revenue growth, though very substantial, is lower than our projections at the time the franchise was let, resulting in an operating loss of £7.2m before the onerous contract provision for the year to 31 March 2018. We believe that our plans to increase capacity by more than 80% and create a true intercity railway for the North over the remainder of the franchise are the right ones for our passengers and communities, and we are confident that they will drive a considerable acceleration in our annual patronage and revenue growth over time. However, our assessment is that this growth will be short of our bid assumptions due to current market conditions, and we have therefore taken the decision to provide for forecast losses of up to £106.3m over the remaining life of the franchise to 31 March 2023.

The operating loss was £113.5m (2017: loss of £25k). The operating loss includes the charge during the year of £106.3m in respect of an onerous contract provision relating to the forecast losses to be made to the end of the franchise.

The result for the year is reflective of a very challenging second year of the franchise. The company has faced a number of challenges over the past year, including the Manchester Arena attack in May 2017, changes to the delivery of the December 2017 timetable, significant weather disruption in early 2018 as well as an industry-wide slowdown exacerbated by the magnitude of the infrastructure upgrades on our network.

We have a strong track record in close partnership working with Network Rail, the DfT and all industry partners to deliver infrastructure upgrade projects whilst minimising disruption for passengers. Completion of these projects permits the introduction into service of additional train capacity or more intense timetables, which in turn generates the patronage growth that drives the franchise business plans.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2018**

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

The infrastructure upgrade work continues, albeit at a slower rate than originally envisaged, and we are working with our industry partners to reflect the impact of these delays in the level of our franchise commitments. These changes require careful planning, management and negotiation with industry partners, in particular where delays can impact the delivery of franchise assumptions.

We also adjust our own operating plans to take changing timescales into account and to find alternative ways to deliver our improvements for customers as soon as possible, as has been the case this year in respect of the Bolton-Preston line. In all, more than £500m is being invested in our franchise to transform the operation into the true intercity network for the North, with 13 million more seats across the operation.

The company has achieved much over this past year.

We have met the key milestones in the delivery of our new trains, which will include the introduction of 220 new carriages, comprising a mix of Class 802, Class 397 and Mark 5A trains, the first of which will start to be in passenger service from early 2019.

We have completed over half of the £32m Class 185 fleet upgrade, with the remainder of the fleet to be upgraded by summer this year, including installation of modern comfortable seating, free Wi-Fi, an on-board entertainment system and at seat plug-sockets.

We outperformed our community investment target, delivering over £240k worth of community investment, charitable fundraising and volunteering hours, welcomed a new cohort of apprentices who are now well and truly part of our business, and more recently new customer ambassadors to help communicate the May 2018 timetable changes to our customers.

We also introduced new automatic ticket gatelines at Manchester Airport, Dewsbury and Manchester Piccadilly, invested more than £1.8m at Hull Station to deliver a new customer information point, booking office, waiting room, toilets and new retail outlets and installed new PA and customer information systems at our stations, to provide clearer information to our customers.

Our decision to provide for forecast losses of up to £106.3m over the remaining life of our franchise contract does not affect our plans for the remainder of the franchise to increase capacity on our network by more than 80% and create a true intercity railway for the North, in conjunction with our industry partners. We remain focused on working with our industry partners to continue to deliver our plans for this franchise, which will in turn drive patronage growth over time.

We expect the general level of activity to increase in the coming year with the introduction of new rolling stock and timetable changes and we will continue to focus on our addressable cost base. We will continue to operate the franchise until March 2023 and will meet all our objectives under the franchise agreement.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2018**

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

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

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 judgement.

In light of the net liability position of £94.4m, exacerbated by the onerous contract provision of £106.3m, 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 meet its obligations for a period of at least 12 months from the date of signing 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 existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Key Performance Indicators

The key non-financial performance indicators are as follows:

Train operating performance was 3.68% below targeted levels in 2017/18 with our public performance measure (PPM) moving average score standing at 86.33% (2017: 88.79%). This figure was impacted by severe weather conditions and infrastructure related issues.

In the latest independent Transport Focus National Rail Passenger Spring Survey, the company achieved 86% (2017: 84%) customer satisfaction against a target of 85% (2017: 86%).

The company measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2018 was 60% (2017: 65%) against a target of 72%. This was a disappointing result, but reflective of the challenges faced by the company this year.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2018**

Principal risks and uncertainties

The company will be subject to the following principal risks and uncertainties over the franchise period.

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 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 or increased costs, fines, penalties or additional insurance arrangements. 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 have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup plc actively engages with the relevant bodies and policy makers to ensure that we are properly positioned to respond to any proposed changes.

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. To mitigate this risk 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 (CONTINUED)**For the year ended 31 March 2018**

Customer service

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

Data Security

All business sectors are targeted by increasingly sophisticated cyber security attacks. Across our business, we are seeing increased use of website and internet sales channels which gather large amounts of data and therefore the risk of unauthorised access to, or loss of, data in respect of employees or our customers is growing. A failure to comply with the General Data Protection Regulations, which came into force in May 2018, could result in significant penalties and could have an adverse impact on consumer confidence in our business. We have threat detection systems across our business but continue to remain vigilant to security improvements when identified.

Pensions

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

Compliance, litigation and claims, health and safety

The company's operations are subject to a wide range of legislation and regulation. Failure to comply can lead to litigation, claims, damages, fines and penalties. The company has three main risks; third party injury and other claims arising from general operations, employee injuries and property damage. A higher volume of litigation and claims can lead to increased costs and reputational impact. We have a very strong focus on safety and it is one of our five values. We self-insure third party and employee injury claims up to a certain level commensurate with the historical risk profile. We purchase insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers. Non-insured claims are managed by FirstGroup plc's dedicated in-house legal teams with external assistance as appropriate.

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.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2018**

Employee costs and relations (continued)

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

The threat from terrorism is enduring and continues to exist. Public transport continues to be regarded as an attractive and viable target. Across our business, we take all reasonable steps to help guard against such activity on the services we operate. An attack, or threat of attack, could lead to reduced public confidence in public transportation, and/or specifically in our security and safety record and could reduce demand for our service, increase costs and security requirements and cause operational disruption. 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.

Economic conditions including Brexit Implications

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

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2018**

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



4th Floor
Capital House
25 Chapel Street
London
NW1 5DH

Darren C Higgins
Director
27th July 2018

DIRECTORS' REPORT**For the year ended 31 March 2018**

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2018.

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 14.

No dividends were declared during, or after the year (2017: nil).

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

Directors

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

Clive Burrows

Hugh P Clancy

Elizabeth A Collins

Leo D Goodwin

Darren C Higgins

Kevin Gardner

(appointed 14 July 2017)

Scott I Jarvis

(appointed 07 September 2017)

Andrew J McNeil

(resigned 06 August 2017)

Stephen Montgomery

Employee consultation

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. We also hold regular focus groups on pertinent issues. Our annual employee survey allows us to receive direct feedback from the employees in terms of their engagement with the business. This then leads into our action plans to build on our strengths and to address any weaknesses. Our Reward & Recognition schemes also seek to increase employee engagement.

Additional information about employee numbers and costs is found in note 5.

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 March 2018

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



4th Floor
Capital House
25 Chapel Street
London
NW1 5DH

Darren C Higgins
Director
27th July 2018

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**

Report on the audit of the financial statements

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 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of First Transpennine Express Limited (the 'company') which comprise:

- the Profit and Loss Account;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the 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 applicable legal requirements.

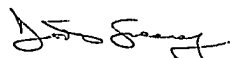
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.



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

27 July 2018

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2018

	Note	2018 £000	2017 £000
Turnover	2	258,561	241,407
Operating costs			
– General		(265,715)	(241,432)
– Exceptional	4	(106,300)	-
Total operating costs	3	<u>(372,015)</u>	<u>(241,432)</u>
Operating loss		(113,454)	(25)
Net interest (payable)/receivable	8	(59)	108
(Loss)/Profit on ordinary activities before taxation	9	(113,513)	83
Tax credit/(charge) on (loss)/profit on ordinary activities	10	19,376	(49)
(Loss)/Profit for the financial year		<u>(94,137)</u>	<u>34</u>

All activities relate to continuing operations

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2018

	Note	2018 £000	2017 £000
(Loss)/Profit for the financial year		(94,137)	34
Actuarial (loss) due to scheme assets and liabilities	21	(9,176)	(40,211)
Actuarial gain due to rail franchise adjustment	21	9,176	40,211
Total other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive (expense)/income for the year		<u>(94,137)</u>	<u>34</u>

BALANCE SHEET
At 31 March 2018

	Note	2018		2017	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	11		2,620		1,873
Tangible assets	12		13,810		3,947
			16,430		5,820
Current assets					
Stock	13		122		143
Debtors	14		60,367		30,554
Cash at bank and in hand			60,913		44,973
			121,402		75,670
Creditors: amounts falling due within one year	15	(109,897)		(60,112)	
Provisions for liabilities and charges: amounts falling due within one year	16	(27,780)		(1,447)	
Net current assets/(liabilities)			(16,275)		14,111
Total assets less current liabilities			155		19,931
Creditors: amounts falling due after more than one year	15		(15,390)		(19,704)
Provision for liabilities and charges: amounts falling due after more than one year	16		(79,200)		(680)
Net liabilities excluding pension liability			(94,435)		(453)
Pension liability	21		-		-
Net liabilities			(94,435)		(453)
Capital and reserves					
Called up share capital	18		-		-
Profit and loss account			(94,435)		(453)
Shareholder's deficit			(94,435)		(453)

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

The financial statements of First TransPennine Express Limited (Company Number: 09111801) were approved by the Board of Directors on 27th July 2018 and were signed on its behalf by:

Darren C Higgins
Director



STATEMENT OF CHANGES IN EQUITY**At 31 March 2018**

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2016	-	(458)	(458)
Total comprehensive income for the financial year	-	34	34
Capital contribution arising from interest on loan (note 15)	-	(132)	(132)
Share-based payments	-	103	103
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2017	-	(453)	(453)
Total comprehensive income for the financial year	-	(94,137)	(94,137)
Capital contribution arising from interest on loan (note 15)	-	52	52
Share-based payments	-	103	103
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2018	-	(94,435)	(94,435)

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

First Transpennine Express Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The registered office address is 4th Floor, Capital House, 25 Chapel Street, London, NW1 5DH.

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 3, 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 the company 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, financial instruments, presentation of a cash-flow statement, intra group transactions and remuneration of key management personnel.

(b) Tangible fixed assets and depreciation

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

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

Plant and equipment - 3 to 10 years straight line/duration of franchise

Depreciation 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

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

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 and amortisation

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

Amortisation is provided to write off the cost less residual value of intangible fixed assets over the shorter of their estimated useful economic lives or the duration of the franchise. Our amortisation policy is as follows:

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

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) Pension costs

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 if the benefits have already vested. If the benefits have not vested, the costs are recognised on a straight-line basis over the period until vesting occurs. Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the income statement. Where changes in assumptions can be made without changing the Trustee agreement these are recognised as a change in assumption in other comprehensive income. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

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

1 Principal accounting policies (continued)

(h) Pension costs (continued)

In calculating the company'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 company'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 the company and recognised in the accounts.

(i) Share based payments

The company's ultimate 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) Capital grants

Capital 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. All other grants are credited to the profit and loss account as the related expenditure is incurred.

(k) Financial assets and liabilities

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

(l) Future ticket deferral

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

1 Principal accounting policies (continued)

(m) Provisions

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

(n) 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) 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) 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 profitability and, in cases where options exist, the life of the contract or franchise.

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 which given their complexity and duration can be sensitive to changes in future assumptions. 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 TOCs have access to common infrastructure such as railway lines. Management is required to estimate the amounts receivable and also payable taking account of the information available at the time.

2 Turnover and (loss)/profit on ordinary activities before taxation

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

The whole of the turnover and (loss)/profit 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:

	2018 £000	2017 £000
Passenger receipts	239,460	221,314
Traincrew services	7,995	9,338
Other revenue	11,106	10,755
	<u>258,561</u>	<u>241,407</u>

3 Operating costs

	2018 £000	2017 £000
Station & track access and facilities	42,635	38,824
Staff costs (note 5)	64,645	59,292
Other external charges	135,085	134,259
Intangible asset amortisation (note 11)	111	-
Tangible asset depreciation (note 12)	1,607	544
Exceptional costs (note 4)	106,300	-
Net franchise payments	21,632	8,513
	<u>372,015</u>	<u>241,432</u>

4 Other exceptional costs

Exceptional costs of £106.3m were charged to the profit and loss account (2017: £nil). The exceptional costs include a contract provision relating to the profitability of the franchise contract and the forecast losses arising from the company's franchise and long-term contracts.

	2018 £000	2017 £000
Contract Provision (note 16)	<u>106,300</u>	<u>-</u>

5 Employee numbers and costs

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

	2018 No	2017 No
Operations	453	448
Customer service	471	469
Other	179	149
	<u>1,103</u>	<u>1,066</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	55,042	50,760
Social security costs	5,857	5,026
Pension costs (note 21)	3,746	3,506
	<u>64,645</u>	<u>59,292</u>

Pension costs include only those items included within operating costs.

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 previous years, details of which are disclosed in their report and accounts. These directors have not performed any qualifying services on behalf of the company 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 paid by the company during the year was as follows:

	2018 £000	2017 £000
Emoluments (excluding pension contributions)	<u>700</u>	<u>734</u>
Contributions to defined benefit schemes	<u>38</u>	<u>38</u>

Three directors were members of the company's defined benefit scheme (2017: 3).

6 Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2018 £000	2017 £000
Emoluments (excluding pension contributions)	275	265
Defined benefit scheme:		
Accrued pension at year end	49	46
Accrued lump sum at end of year	36	33
	<u>360</u>	<u>344</u>

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

7 Share based payments

Save as you earn (SAYE)

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

Buy as you earn (BAYE)

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

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 (2017: £103,000) relating to equity-settled share-based payment transactions.

8 Net interest (payable)/receivable

	2018 £000	2017 £000
Bank interest receivable	180	108
Interest payable on parent company loans (note 15)	(239)	-
	<u>(59)</u>	<u>108</u>

9 (Loss)/profit on ordinary activities before taxation

	2018 £000	2017 £000
Loss/(profit) on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of the annual accounts	50	50
- Deloitte LLP non-audit fee for other services	8	5
Depreciation on tangible owned assets	1,607	544
Intangible asset amortisation	111	-
Rentals payable under operating leases		
- plant and machinery	74,556	70,947
- other operating leases	21,629	17,738

10 Tax on (loss)/profit on ordinary activities

	2018 £000	2017 £000
Current taxation		
- UK corporation tax (credit)/charge for the year	(430)	22
- Adjustment in respect of prior years	(1)	219
Total current taxation	<u>(431)</u>	<u>241</u>
Deferred taxation		
- Origination and reversal of timing differences	(19,162)	(4)
- Effect of decrease in tax rate on opening deferred tax balance	-	11
- Adjustment in respect of prior years	217	(199)
Total deferred taxation	<u>(18,945)</u>	<u>(192)</u>
Total tax (credit)/charge on profit on ordinary activities	<u>(19,376)</u>	<u>49</u>

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2017: 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:

10 Tax on (loss)/profit on ordinary activities (continued)

	2018 £'000	2017 £'000
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19% (2017: 20%)	(21,567)	17
Expenses not deductible for tax purposes	(42)	-
Prior year adjustments	216	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	2,017	1
Total tax (credit)/charge on profit on ordinary activities	<u>(19,376)</u>	<u>49</u>

The UK Government enacted legislation to reduce the main rate of UK corporation tax to 17% with effect from April 2020.

11 Intangible fixed assets

	Computer software £000
Cost	
At 1 April 2017	1,873
Additions	858
At 31 March 2018	<u>2,731</u>
Amortisation	
At 1 April 2017	-
Charge for year	111
At 31 March 2018	<u>111</u>
Net book value	
At 31 March 2018	<u>2,620</u>
At 31 March 2017	<u>1,873</u>

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.

Included in computer software is £1.776m (2017: £1.873m) of assets in course of construction, which are not amortised until they are brought into use.

12 Tangible fixed assets

	Other plant and equipment £000
Cost	
At 1 April 2017	4,491
Additions	11,470
At 31 March 2018	<u>15,961</u>
Accumulated depreciation	
At 1 April 2017	544
Charge for year	1,607
At 31 March 2018	<u>2,151</u>
Net book value	
At 31 March 2018	<u>13,810</u>
At 31 March 2017	<u>3,947</u>

Included in Other plant and equipment is £3.5m (2017: £1.5m) of assets under construction, which are not depreciated until they are brought into use. This primarily relates to depot improvement works.

13 Stock

	2018 £000	2017 £000
Fuel	<u>122</u>	<u>143</u>

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

14 Debtors

	2018 £000	2017 £000
Amounts due within one year		
Trade debtors (including amounts recoverable from Network Rail)	37,047	26,167
Other debtors (primarily VAT)	1,725	3,119
Other prepayments and accrued income	2,027	1,076
Deferred tax asset (note 17)	19,137	192
Group tax relief	431	-
	<u>60,367</u>	<u>30,554</u>

15 Creditors

	2018 £000	2017 £000
Amounts falling due within one year		
Trade creditors	11,390	9,919
Amounts owed to group undertakings	11,198	963
Corporation tax	-	273
Other tax and social security	1,590	1,258
Other creditors	2,676	1,997
Accruals and deferred income	83,043	45,702
	<u>109,897</u>	<u>60,112</u>
Amounts falling due after more than one year		
Amounts owed to group undertakings	<u>15,390</u>	<u>19,704</u>
	<u>125,287</u>	<u>79,816</u>

Amounts included within owed to group undertakings include an interest-free loan of £20m (2017: £20m) 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 surplus of £52,000 (2017: loss of (£132,000)) has been treated as a capital contribution. During the current year a further loan of £5.5m (2017: nil) was drawn down. This is an interest-bearing loan, with a fixed rate of 7% per annum, with no repayment schedule.

16 Provisions for liabilities

	Lease Obligations £000	Contract Provision £000	Total £000
At 1 April 2017	2,127	-	2,127
Charged to the profit and loss account	-	106,300	106,300
Utilised in the year	(1,447)	-	(1,447)
At 31 March 2018	<u>680</u>	<u>106,300</u>	<u>106,980</u>

16 Provisions for liabilities (continued)

	2018 £000	2017 £000
Amounts falling due within one year		
Lease obligations	680	1,447
Contract provision	27,100	-
At 31 March	<u>27,780</u>	<u>1,447</u>
	2018 £000	2017 £000
Amounts falling due after more than one year		
Lease obligations	-	680
Contract provision	79,200	-
At 31 March	<u>79,200</u>	<u>680</u>
Total Provision for liabilities	<u>106,980</u>	<u>2,127</u>

Condition audits of the trains were undertaken by the respective leasing companies at the start of the franchise. The reports from these audits were used to establish the opening provision. The remediation work on the class 185 fleet was completed during the year. Similarly, landlord audits were undertaken to establish return condition values at each of our office accommodations at the start of the franchise.

At 31 March 2018, the dilapidation provisions were £0.68 m. This was made up of the liabilities for the class 350 train fleet, as well as remaining liabilities at office locations around the network.

The onerous contract provision has been established based on latest financial forecasts for the franchise until the initial end date of 31 March 2023. The forecasts are based on a number of assumptions, most significantly passenger revenue growth, which include economic and other exogenous factors as well as changes in timetables, capacity and rolling stock. Although we are already achieving industry leading revenue growth, our forecasts suggest that we will fall short of the growth requirements in the original bid for this franchise. Based on these forecasts the company considers it has an onerous contract, the value of which is estimated to be £106.3m. Accordingly, this amount has been charged to the income statement.

Whilst the provision is based upon management's current best estimate, there can be no certainty that actual results will be consistent with those forecasts. The franchise contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth. A reduction or increase of 0.5% in the cumulative annual passenger growth rate assumption would increase or decrease the onerous contract provision required by £27.1m. The provisions are expected to be fully utilised within five years.

17 Deferred taxation

	£000
Asset at 1 April 2017	192
Credited to Profit and Loss Account	18,945
Asset at 31 March 2018	<u>19,137</u>

The deferred tax asset comprises:

	2018 £000	2017 £000
Capital allowances less than depreciation	(2,131)	93
Other timing differences	2,189	17
Losses	19,079	82
Deferred tax asset	<u>19,137</u>	<u>192</u>

During the year beginning 1 April 2018, there will be no change to the charge to corporation tax as a result of the reversal of the deferred tax asset.

18 Called up share capital

	2018 £	2017 £
Allotted, called up and fully paid 1 ordinary share of £1	<u>1</u>	<u>1</u>

19 Commitments

Capital commitments

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

	2018 £'000	2017 £'000
Contracted for but not provided	<u>1,212</u>	<u>4,279</u>

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

19 Commitments (continued)

Operating leases

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

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	5,950	32,354	5,956	34,820
Between one and five years	18,924	335,151	24,057	333,856
After five years	3,967	101,601	6,076	100,221
	<u>28,841</u>	<u>469,106</u>	<u>36,089</u>	<u>468,897</u>

20 Contingent liabilities

The company had no contingent liabilities at the reporting date (2017: nil).

FirstGroup plc has provided performance bonds of £15m (2017: £15m) 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 in the form of a subordinated loan facility totalling £168.8 m (2017: £168.8 m), which is 50% backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the company. As stated in note 15, £5.5 m of this loan facility was drawn as at 31 March 2018.

21 Pension liability

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 year ended 31 March 2018 was £0.1m (2017: £0.1m).

Defined benefit schemes

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme (RPS). Under the terms of the RPS the employer (60%) and the employees (40%) share any fund deficit. The operating cost relating to this scheme in the year was £3.7m. (2017: £3.5m)

21 Pension liability (continued)

Defined benefit schemes (continued)

The scheme is valued triennially, when the cost of future service is calculated and the funding position established. The last valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle in respect of the costs used in these financial statements. A draft actuarial valuation at 31 December 2016 was completed during 2017 and there is a legal obligation to finalise the valuations and schedules of contributions before the statutory deadline of 31 March 2018. Discussions with the Pensions Regulator, and other stakeholders, in relation to the Pensions Act valuation for all Railway Pension Schemes for the Train Operating Companies are still ongoing and this process is likely to continue for some months. As a result, the Regulator has asked that the Pensions Act valuation is not completed until matters are all agreed. Until the valuation is complete, it will not be possible to determine future investment strategy and cash contributions.

The actuarial valuation was updated for 31 March 2018; at this date the market value of the scheme's assets totalled £144.4m, £51.1m for the former First North Western section and £93.3m for the former Arriva Trains Northern section. The actuarial value of these assets was sufficient to cover 57% (2017: 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% (2017: 9.64%) for the former First North Western' employees and 14.46% (2017: 14.46%) for the employer. For the former First Arriva Trains Northern' employees, the current contribution rate is 10.12% (2017: 10.12%) and 15.18% (2017: 15.18%) for the employer.

Financial assumptions

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

	2018	2017
	£000	£000
Rate of increase in salaries	3.30%	3.35%
Rate of increase of pensions in payment	2.05%	2.00%
Rate of increase of pensions in deferment	2.05%	2.00%
Discount rate	2.70%	2.80%
Inflation assumption – CPI	2.05%	2.00%
Inflation assumption - RPI	3.05%	3.10%

21 Pension liability (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.

Post-retirement mortality (life expectancy in years): current pensioners at 65, 20.6 years (2017: 20.6 years); future pensioners at 65 aged 45 now, 21.9 years (2017: 21.9 years).

Asset values

The breakdown of the asset fair value by asset type is as follows:

	2018 £000	2017 £000
Property	2,162	3,270
Private Equity	11,958	13,260
Other	-	400
Cash plus	130,310	123,310
	<u>144,430</u>	<u>140,240</u>

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

21 Pension liability (continued)

Reconciliation of movements

	Assets	Liabilities	Shared cost	Franchise impact	Net
	£000	£000	£000	£000	£000
Balance sheet at 1 April 2016	132,466	(179,810)	18,938	28,406	-
Income Statement					
Operating					
- Service cost	-	(10,517)	4,207	2,982	(3,328)
- Past service gain	(11,800)	18,200	(2,560)	(3,840)	-
- Administration cost	-	(178)	-	-	(178)
Total Operating cost	(11,800)	7,505	1,647	(858)	(3,506)
Financing	4,958	(6,522)	626	938	-
Total Income Statement	(6,842)	983	2,273	80	(3,506)
Amounts paid to / from scheme					
Employer contributions	3,398	-	(1,360)	1,360	3,398
BRASS matching contributions	108	-	-	-	108
Employee contributions	2,338	-	(935)	(1,403)	-
Benefits paid	(2,880)	2,880	-	-	-
Total	2,964	2,880	(2,295)	(43)	3,506
Expected closing position	128,588	(175,946)	18,916	28,443	-
Gains / losses					
Change in financial assumptions	-	(55,163)	22,065	33,098	-
Return on assets in excess of discount rate	11,652	-	(4,660)	(6,992)	-
Experience	-	3,300	(1,292)	(2,008)	-
Total	11,652	(51,863)	16,113	24,098	-
Balance sheet at 31 March 2017	140,240	(227,809)	35,029	52,542	-

21 Pension liability (continued)

Reconciliation of movements

	Assets	Liabilities	Shared cost	Franchise impact	Net
Balance sheet at 1 April 2017	140,240	(227,809)	35,029	52,542	-
Income Statement					
Operating					
- Service cost	-	(13,874)	5,550	6,562	(1,762)
- Administration cost	-	(1,984)	-	-	(1,984)
Total Operating cost	-	(15,858)	5,550	6,562	(3,746)
Financing	4,000	(6,166)	866	1,300	-
Total Income Statement	4,000	(22,024)	6,416	7,862	(3,746)
Amounts paid to / from scheme					
Employer contributions	3,615	-	(1,499)	1,499	3,615
BRASS matching contributions	131	-	-	-	131
Employee contributions	2,410	-	(964)	(1,446)	-
Benefits paid	(4,389)	4,389	-	-	-
Total	1,767	4,389	(2,463)	53	3,746
Expected closing position	146,007	(245,444)	38,982	60,457	-
Gains / losses					
Change in financial assumptions	-	(5,299)	2,119	3,180	-
Return on assets in excess of discount rate	(1,577)	-	631	946	-
Experience	-	(2,300)	1,714	586	-
Total	(1,577)	(7,599)	4,464	4,712	-
Balance sheet at 31 March 2018	144,430	(253,043)	43,446	65,169	-

22 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 The Point, 37, North Wharf Road, London, W2 1AF.