FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

Company Registered
Number: 09111801

FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2022

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STRATEGIC REPORT
For the year ended 31 March 2022

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

Principal activities

First Transpennine Express Limited ("TPE" or "Company") mainly operates passenger railway services in the north of England and in Scotland, providing essential connectivity between towns and cities including Liverpool, Manchester, Leeds, York, Newcastle, Sheffield, Hull, Middlesbrough (inc. Redcar and Saltburn), Scarborough, Cleethorpes, Preston, Carlisle, Glasgow and Edinburgh, as well as direct links for Manchester Airport.

At the start of the year under review, the Company operated under the Emergency Recovery Measures Agreement ("ERMA") put in place by the UK government in response to the pandemic. This agreement ended at 01:59 on 30 May 2021, which was an addition to and worked with the underlying Franchise Agreement. At 02:00 on 30 May 2021 the business commenced operation of a new National Rail Contract ("NRC") with the Department for Transport (DfT), an agreement having been signed on 19 May 2021. This National Rail Contract (NRC) with the DfT has a term of 2 years until 28 May 2023. After this period, the Secretary of State has the right to extend it for up to another 2 years.

The Company entered into two Settlement Agreements with DfT in May 2021 as part of the Franchise Agreement termination. The financial impact of both agreements was included in the prior year results, as detailed in Note 4.

In financial year 2022, the Company was also awarded additional work to assist in the Transpennine Route Upgrade (TRU) project to upgrade railways in the north of England, worth c.£5m in fees over two years. TRU is the largest conventional rail project in Control Period 6, with maturing plans to deliver route electrification and improve network capacity, line speeds and performance over the next ten years along the Manchester – York route, which forms the spine of the Company's network.

The importance of the Company's ongoing support for TRU has been recognised by DfT's publication on 15 March 2022 of a Prior Information Notice (PIN).
This PIN signals intent to invite the Company to set out proposals for a long term Directly Awarded NRC starting between 1 April 2023 and 28 May 2023, with a core term of 4 years, with up to a rolling 4-year extension option entirely at the Secretary of State for Transport's discretion. The extension option will be terminable at any time after the core term with a minimum of 3 months' notice.

Business review

Passenger receipts grew by 234.2% (2021: fell by 82.3%) over the year (2022: £151.9m versus 2021: £45.5m) due to passenger levels continuing to grow towards pre-covid levels, with an offsetting reduction in revenue subsidy received from the DfT of £259.3m (2021: £325m).
General turnover increased to £420.9m (2021: £377.8m), whilst overall turnover decreased to £420.9m (2021: £437.7m), due to last year's number including exceptional income of £59.9m.
The latter was in respect of the financial impact of the franchise settlement agreements in May 2021 with the DfT and the release of the residual contract provision charged in previous years.
The Company made operating profit of £8m (2021: £73m).

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2022

Business review (continued)

During the year, passenger volumes increased following the easing of travel restrictions in England from spring 2021 and again in February 2022, when the restrictions implemented by Government in response to the Omicron variant were eased. In the leisure market, volumes have recovered particularly well, with demand on some flows higher than before the pandemic. We continue to work closely with the DfT on appropriate service provision, with services being altered during the year to reflect pandemic and other impacts.

The Company has experienced some temporary shortages of employees during the year, resulting from increased sickness and self-isolation, but this did not materially impact the Company's overall financial performance. Traincrew availability in the latter third of the year was also challenged by the loss of rest day working by drivers and the National Union of Rail, Maritime and Transport (RMT) industrial action by its conductor members at TPE.

Despite these issues, which impacted service performance and revenue in the latter part of the financial year, the Company delivered overall passenger and other performance metrics in line with expectations with the accounts based on management's estimate of fees receivable.

TPE has generated satisfactory returns despite challenging industry conditions and is focused on working with its industry partners to deliver better customer experiences, which will in turn result in passengers returning to the railway. We continue to work closely with Network Rail, the DfT, industry partners and mayoral, combined and local authorities to deliver TRU and other projects while minimising planned disruption for passengers.

The Company's commitment to the safety of its employees and all third parties interacting with the business remained unwavering. The Company's approach to safety focused on innovative technology, external assurance and our behavioural change programme, Be Safe, all of which made further progress in the year.

Current Trading and the future

The Company successfully negotiated a new National Rail Contract (NRC), which commenced on 30 May 2021. The NRC replaced the ERMA and the Franchise Agreement. The agreement of the franchise settlements and the NRC extinguished materially all the liabilities that TPE had with the DfT under the Franchise Agreement.

Under the NRC, the DfT retains all revenue risk and substantially all cost risk (provided costs in excess of budget are agreed in advance with the DfT). TPE is paid a fixed management fee and has the opportunity to earn additional performance fees. The NRC is based on a more appropriate balance of risk and reward between operators and the Government and carries no significant contingent capital risk with the net cost of operations and capital expenditure funded in advance by the DfT. Through the NRC, the Company is incentivised to deliver strong performance outcomes for customers through punctuality and reliability targets. These are supplemented by a balanced scorecard focused on customer service delivery, financial performance and business management.

Business review (continued)

Beyond the NRCs, the Government is engaging with rail operators about the next generation of Passenger Service Contracts which will focus private sector operators on continuing to run services efficiently and providing reliable and high-quality services for passengers, under the auspices of the planned new Great British Railways organisation.

On 15 March 2022, the DfT issued a Prior Information Notice which provides for a longer-term NRC for the Company starting in spring 2023 with a core term of four years, with up to a further four years at the Secretary of State for Transport's discretion. This Direct Award process has now commenced, with a final Request for a Business Plan expected from DfT in late summer 2022.

The rail sector is embarking on a period of reform necessary to modernise industry practices and secure the long-term future of the industry. A number of trade unions have carried out or announced plans for industrial action at TOCs and Network Rail. Notwithstanding the fact that under the NRC the company bears no revenue risk and limited cost risks, prolonged industrial action presents enormous challenges for everyone, and most importantly for rail passengers who rely on these services.

Post year end on 24th May 2022 the RMT informed the business that the ballot for strike action over jobs, pay and conditions had been successful. Industrial action took place on the 21st, 23rd and 25th of June 2022, resulting in significant reductions in service provisions across the National Rail Network. Furthermore, on the 13th of July the RMT informed the business for further strike action over jobs, pay and conditions. The industrial action took place on the 27th of July. The rail industry will continue to work with the unions to seek to resolve this dispute.

Our priorities and outlook

The agreement of the NRC has provided longer term security to the business and cemented the ability of the business to continue to operate as a going concern.

Despite the challenges presented by the pandemic, the Company has continued to develop its Delivery Partner role for the TRU Programme. This major investment in its network will help drive the longer-term recovery in its annual patronage and revenue growth, although planned disruption is expected through the 2020s as engineering works are undertaken, causing disruption for its customers and necessitating the development and delivery of robust customer handling plans in which the Company is playing a leading role.

Whilst the Coronavirus Pandemic has brought new, significant challenges, the new NRC includes contractual mechanisms that mitigate the impact of a number of other factors affecting the performance of our contract, including infrastructure reliability and industrial action.

The Company's work with Network Rail continues to be important to delivering a consistent and reliable services to our customers, and the close working relationship we have built as part of our local alliance agreement will continue to be a valuable tool in responding to challenges in the future. We believe this close relationship will continue as Network Rail transitions into Great British Railways.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2022

Going concern

The directors are required to state whether they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

Background for going concern

The continued impact of the Coronavirus pandemic and the record levels of inflation, on the wider economy and the transport sector within the market in which the business operates, remains unclear. However, the Company is a business that provides essential services to the communities it serves. Continuity of transport has proved essential to local communities and many of our customers. It will be critical to the return to normal conditions when the present uncertain situation is overcome. The funding received from government to sustain services through the ERMA and the NRC contract, is testament to the importance of the service we provide.

In light of the DfT's contractual roadmap and contractual right to extend the NRC with the company, with Operator of Last Resort as the only remote alternative, the directors believe there is reasonable expectation that the company will continue to operate for the foreseeable future and at least twelve months from the date of approval of the financial statements, under an extended NRC contract.

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the Company's ability to continue as a going concern for the twelve months from the date of the financial statements.

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the company's ability to continue as a going concern for the twelve months from the date of approval of the financial statements.

The major assumptions and key areas of judgement incorporated in the modelling included:

- the longer-term impact of Coronavirus on customers travels patterns and the recovery of the UK economy;
- the potential impacts on financial and trading performance of the risks held by First Transpennine Express Limited under the NRC;
- the protection provided within the National Rail Contract;
- • the assumption that the DfT's contractual right to extend the NRC with the company will be enacted; and
- the timing of working capital flows.

These financial forecasts assume the business seeing a gradual return in passenger revenues, although this is unlikely to result in smooth growth as the UK economy recovers from Covid-19 and customers adjust to the new normal. However, given the contractual terms of the NRC it is not considered necessary to run passenger revenue and demand related stress tests.

Going concern assessment (continued)

As at 31 March 2022, the company had net current liabilities of £5.4m (2021: £9.3m) and net liabilities of £32.6m (2021: £43.2m).

At the date of signing these financial statements, a letter of support has been provided by the ultimate parent company, FirstGroup plc, stating that it will provide the company with funding up to the limit of the contingent commitments (for parent company support (£63.7m) as set out in the Funding Deed, details of which are disclosed in note 22, Contingent liabilities. The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support for a period of at least twelve months from the date of approval of these financial statements.

Going concern statement

Based on their review of the financial forecasts prepared, the expectation that continued government support will be provided under an extended NRC and having regard to the risks and uncertainties to which the company is exposed, the directors believe that the company has adequate resources to continue in operational existence for the foreseeable future and at least a twelve month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

Key Performance Indicators

Financial key performance indicators are the fixed and performance-based fees under the terms of the EMA/ERMA and NRC which directly drive the level of operating profit/loss.

Under the EMA/ERMA TPE had the opportunity to earn a Performance Based Fee based upon scoring against qualitative scorecard measures. The performance fee paid to the operator depended on the qualitative scoring in each area where the operator was graded a 1, 2 or 3, 3 being the maximum fee level.

The EMA performance-based fee was across three areas Operational Performance, Customer Experience and Acting as a Good and Efficient Operator.

The ERMA performance-based fee was across four areas Operational Performance, Customer Experience, Finance and Collaboration, with each area being split into one or more subcomponents.

The business performed better than expected when assessed by the DfT against these measures in both the EMA and the ERMA.

Under the NRC TPE can earn a Performance Based Fee based upon scoring against quantitative and qualitative scorecard measures. The performance-based fee is across five areas: Operational Performance, Customer Satisfaction, Service Quality, Finance and Business Management, with each area being split into one or more subcomponents. Operational Performance is a quantitative measure and is split into 6 subcomponents. Customer Satisfaction, Service Quality, Finance and Business Management are scored against a qualitative scorecard measure.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2022

Key Performance Indicators (continued)

The performance fee paid to the operator depended on the qualitative scoring in each area where the operator was graded a 1, 2 or 3, 3 being the maximum fee level.

The key non-financial performance indicators are set out below.

A major change under the NRC was the change of metrics used to assess the Company's performance. With industry standard public performance measure (PPM) no longer being used as the primary metric but instead being replaced by the CP6 metrics of Time to 3, Time to 15 and Cancellations, with Time to 3 being the percentage of recorded station stops called at within 3 minutes of the planned time, Time to 15 being the Percentage of Recorded Station Stops called at within 15 minutes of the planned time and Cancellations assessed as the percentage of planned trains which either did not run their full planned journey or did not call at all their planned station stops. These are counted as full cancellation if train ran less than 50% of its planned journey mileage (including if did not run at all) and as a part cancellation if over 50% but less than 100% of planned mileage has been run, or the train failed to call at one or more stations.
Full cancellations are weighted as 1, part cancellations as 0.5, the cancellations metric is then expressed as a percentage of the number of trains planned to run in the applicable timetable.

Between the start of the NRC and the end of the current financial year, Time to 3 performance was 87.51% against a target of 82.87%, Time to 15 was 98.42% against a target of 97.61% and Cancellations performance was 2.16% against a target of 2.54%. These have been mainly affected by bad weather during the winter and traincrew industrial relations impact on the later part of the year. The Company continues to thoroughly review the performance process on a daily basis to ensure that there are robust processes in place to improve these metrics in the future.

Under the NRC a Service Quality Regime (SQR) was introduced which assesses the standard of assets and facilities across our stations, onboard trains as well as looking at our customer service offering both in person and online. All inspections are completed entirely independently, and anything found not to meet the desired standards is subject to rectification which has to be completed within a timescale agreed with DFT and evidenced to ensure that issues are fixed. TPE's results against targets since the introduction of SQR are shown on the table below.

	Service Quality Area	Target	Annual
Stations	Ambience & Assets	91%	83.68%
	Cleanliness	90%	77.91%
	Information	93%	82.99%
	Ticketing and Staffing	94%	94.56%
Trains	Ambience & Assets	93%	91.86%
	Cleanliness	91%	97.36%
	Information	91%	81.78%
CS	Online Information	92%	91.45%
	Staff Helpfulness	92%	90.12%

The Company's average headcount in the year increased to 1,511 (2021: 1,435), an increase of 5%. This increase is mainly due to the recruitment of additional management and traincrew to support TRU.

Key Performance Indicators (continued)

The Company measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2022 was 84% (2021: 71%) against a target of 71%.

Principal risks and uncertainties

To deliver our strategy, it is important that we understand and manage the risks that faces the Company. We have a risk management methodology which we use throughout the business to allow us to identify and manage the principal risks which could:

- adversely impact the safety and security of the Company's employees, customers and/or assets;
- have a material impact on the financial or operational performance of the Company;
- impede achievement of our strategic objectives and financial targets; and/or
- adversely impact the Company's reputation or stakeholder expectations.

The Company's principal risks and uncertainties are set out below. These risks have been assessed considering their potential impact (both financial and reputational), the likelihood of occurrence and any change to this compared to the prior year and the reduced risk after the implementation of controls.

Under the NRC the operator holds no revenue risk and very limited cost risk that is proportional to the reward available to the operator.

Coronavirus

Coronavirus has impacted and will continue to impact some of the Company's key risk areas, notably:

- Our first priority from the start of the Coronavirus outbreak was the health and safety of our passengers, employees, and the communities in which we operate. We, in conjunction with FirstGroup plc, took rapid action to apply the advice of governments and health authorities, including implementing additional cleaning regimes and the provision of advice to passengers. At the same time, steps were taken to ensure that we could continue to provide essential transport services so that key workers and people who needed to travel could still do so safely;
- We worked closely with our suppliers to ensure we had the appropriate equipment in place, in line with relevant public health authority guidance for our operations. We followed, and in some cases developed, best practise in areas such as the cleaning and decontamination of trains, stations, depots and offices; and

The government put in place comprehensive emergency measures, in order to maintain continuity of critical rail services. The signing of the EMA, ERMA and subsequently the NRC has led to additional regulatory reporting requirements and communication of the requirements to those within the business who are responsible for ensuring compliance.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2022

Contractual agreements with the DfT

The Company is required to comply with certain conditions as part of its contractual agreements. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the contract. This would result in the Company losing the right to continue operating the affected operations and, consequently, the related opportunity to earn fees or cash flows. The Company may also lose some or all of the amounts set aside as security.

Compliance with contract conditions are closely managed and monitored on a monthly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Information Technology (IT)

The Company relies on information technology in all aspects of its operations. 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, increased costs, fines, penalties or additional insurance requirements. Prolonged failure of its sales website could also adversely affect revenues.

Continued successful delivery and implementation of its IT transformation plan is required to improve yield management and drive future growth. Failure to properly manage the implementation of new IT systems may result in increased costs and/or lost revenue.

The Company focuses on asset management and further enhanced its IT security processes and procedures to mitigate this risk.

Political and regulatory issues

The Company is subject to numerous laws and regulations covering a wide range of matters including health and safety, equipment, employment (including working time, wage and hour, mandatory breaks and holiday pay), competition and anti-trust, data protection and security, bribery and corruption, environment, insurance coverage, consumer protection, and other operational issues. Failure to comply could have financial or reputational implications, result in increased litigation and claims, and have a negative impact on the Company. These laws and regulations are constantly subject to change, the impact of which could include increased compliance costs and/or a reduction in operational flexibility and efficiency.

To help mitigate the risk of legislative or regulatory changes the Company and FirstGroup plc have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup plc actively engages with the relevant bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes.

Customer service

Although revenue risk does not sit with the Company under the terms of the NRC, the Company has an obligation to continue to drive customer revenue recovery and this is reflected in the criteria of the Performance Fee potential. Revenues are at risk if the Company does not continue to provide the level of services expected by customers. Ongoing engagement with customers and community stakeholders takes place across the 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.

Pension scheme funding

The Company primarily participates in a defined benefits pension scheme. Future cash contribution requirements may increase or decrease based on pension scheme investment performance, rates of interest and inflation and estimated life expectancy as well as changes in the underlying membership of the scheme. Other factors, such as changes to the relevant regulatory environments, can affect the pace of cash funding requirements.

At the previous year end, we noted that The Pensions Regulator (TPR) had been in discussion with the RPS (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme.

TPR and the DfT had requested that the RDG co-ordinate the Train Operators' involvement in an industry-wide review of Scheme's funding. The RDG, comprising participants from each of the large owning groups, has been seeking to develop a framework which meets TPR, DfT, RPS and RDG objectives. There has been continuing engagement between the key parties during the year, and efforts to develop a framework to take forward to a formal consultation are ongoing.

Management continues to believe that the protections contained within current contractual agreements with the DfT will allow the Scheme to continue with its current funding strategy in the short term. Nevertheless, TPR believes that a higher level of funding is required in the longer term, and the Group has been engaged with the industry-wide project to consider the funding of the Scheme.

Management continues to believe that an approach that meets TPRs key objectives while maintaining stability and fairness, and retaining protection against unacceptable risk, for both operators and scheme members, is achievable.

Management do not believe that the current NRC has impacted the position in relation to the Company's funding obligations towards the RPS sections and no allowance has therefore been made within the disclosures for these Agreements.

Under contractual agreements the Company is not responsible for any increased cost or residual deficit at the end of a contract. Therefore, there is only short-term cash flow risk within our contract.

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. The financial risk under the terms of the NRC is for such costs to be determined as disallowable and therefore falling outside of the funding terms, as well as the risk of non-compliance with contractual terms. The Company has a very strong focus on safety, and it is one of its five values.

Compliance, litigation and claims, health and safety (continued)

It self-insures third party and employee injury claims, up to a certain level commensurate with the historical risk profile. It purchases insurance above these limits from reputable global insurance firms and 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, relations, recruitment and retention

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 creating risk against operational delivery and the ability to deliver contractual commitments within the National Rail Contract. Industrial action could further adversely impact customer service.

To mitigate this risk, the Company seeks to structure its recruitment and retention policies, training schemes and working practices. Employees are key to service delivery and therefore it is important that good employee relations are maintained.

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.

Disruption to infrastructure/operations

Across our network, we are experiencing greater and more frequent adverse weather disruption impacting our service levels. Severe weather can reduce profits, for example through lower demand for our services, increased costs, and business disruption. We have severe weather action plans and procedures to manage the impact on our operations.

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 the 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 Safety & 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.

Environment and climate change

Environmental and climate change issues are key issues facing the transport sector and have the potential to carry significant risks. We are well positioned to mitigate against these risks through our environmental and sustainability strategy.

The Company continues to build on the prestigious international standards for environmental and energy management by maintaining certification to ISO 14001:2015 and ISO 50001:2011.

Environment and climate change (continued)
Contracts and projects with suppliers with significant environmental risk are now evaluated by our Sustainability team.

Companies Act 2006 Section 172 Statement

The directors have a duty to promote the success of the Company for the benefit of its members as a whole. The Board understands the need to act fairly between the members of the Company when assessing the consequences of a decision over the longer term. The Board believes that its key stakeholders are:

- Customers
- Investors (First Rail Holdings Limited and, ultimately, FirstGroup plc)
- Government and political stakeholders
- Its People
- Communities
- Strategic partners and suppliers

The Board believe that strong engagement, collaboration and dialogue are critical to the effectiveness of its long-term relationships with key stakeholders. The Company Board has adopted the FirstGroup plc processes, policies and governance structures that are relevant to its business and contributes to their development and refinement.

Engaging ethically

In line with the Company's values and the expectations of its customers and partners, it is committed to conducting relationships with stakeholders with high ethical and moral standards in all its interactions. Its values and ethical commitment shape not only what it does, but also how it does it.

The Company has adopted the FirstGroup plc Code of Ethics which applies to everybody working for, or on behalf of, the Company. The code sets out the standards that customers and stakeholders expects of it, and what is expected of each other. It is supported by detailed policies and procedures which are implemented and managed by the senior management team, including its Code of Conduct on Anti-Slavery and Human Trafficking Prevention and its Anti-Bribery Policy.

The Company is committed to recognising human rights. It is committed to the prevention of modern slavery and human trafficking in all its forms, which extends to all business dealings and transactions in which it is involved. It has a zero-tolerance approach to any violations within the Company or by business partners.

The Company has a zero-tolerance approach to bribery, and never offers or accepts any form of payment or incentive intended to improperly influence a business decision. Equally, it supports free and open competition, gaining competitive advantage by providing the highest level of service, not through unethical or illegal business practices.

Companies Act 2006 Section 172 Statement (continued)

Engaging ethically (continued)

The Company has internal control systems and procedures in place to counter bribery and corruption.

Similarly, it respects and protects the privacy of its customers, employees and stakeholders, and is committed to conducting business in accordance with all applicable data protection legislation, including the General Data Protection Regulation and the UK Data Protection Act.

It has an externally managed whistleblowing service for colleagues available with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. All reported issues or concerns to the hotline are taken seriously and investigated as appropriate, ensuring that confidentiality is respected at all times.

The primary methods in which the Company engages with its stakeholders are outlined below:

Customers

- Regular customer and passenger satisfaction surveys to identify what is done well and where it can improve
- Robust customer feedback processes through online and traditional channels
- Customer panels and events
- Ongoing dialogue with customer representative groups

Investors

- Alignment of strategy and the governance structure to deliver the strategy
- Agreement on budgets and forecasts and the reporting of actual performance

Government and political stakeholders

- Engagement with industry forums
- Direct engagement with policymakers
- Strong links with national and regional governments
- Surveys of political stakeholders

Its People

- Regular 'Your Voice' employee engagement surveys
- Dialogue with employee representatives, including with its Employee Director and the trade unions
- Inductions, onboarding sessions and employee handbooks
- Multiple internal communications channels, including the Company intranet, briefings, newsletters and Company employee mobile apps

Companies Act 2006 Section 172 Statement (continued)

Engaging ethically (continued)

Its People (continued)

- Individual performance reviews and development discussions or Time with Your Manager meetings

Communities

- Targeted engagement plans and activities
- Regular dialogue, events and direct engagement activities
- Stakeholder reports and surveys
- Community investment, charitable engagement and employee volunteering

Strategic partners and suppliers

- Regular dialogue with key partners
- Collaboration in cross-industry forums
- Certified systems for collaborative supplier relationships
- Clear ethical and sustainability standards

The Board is mindful of its obligations under section 172 of the Companies Act 2006 to have regard to the views and interests of wider stakeholders when taking decisions. An example of how these considerations influenced the Board's decisions during the financial year is set out below:

TPE has and continues to engage with the DfT, union leaders, employee representatives and FirstGroup plc to establish revised timetables which provided ongoing rail access to key workers to allow them to get to work and to support post COVID recovery.

The revised timetables also allowed TPE to minimise ongoing exposure to the coronavirus for TPE's on-train employees initially through a reduction of the onboard services being provided. Once new Covid safety practices were put in place to reduce the risk of infection for our passengers and our employees we were able to increase our timetabled services.

The Covid safety practices introduced in 2020, included new driver training bubbles, new cleaning regimes for stations, trains and offices. TPE also continued to procure additional IT equipment to enable office-based staff to work from home to help mitigate the risk of the infection spreading within office environments.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2022

Companies Act 2006 Section 172 Statement (continued)

The UK Government lifted coronavirus restrictions over the course of the year under review. We have worked closely with the DfT, union leaders, employee representatives and First Group to review the implications of the lifting of these restrictions and have reverted to pre pandemic practices where it has been agreed to be safe and practicable to do so.

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

8th Floor
The Point
37 North Wharf Road
London
W21AF

Carolann James
Director

04 August 2022

DIRECTORS' REPORT
For the year ended 31 March 2022

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 2022.

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 23.

No dividends were declared during, or after the year (2021: £nil).

Directors

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

Clive Burrows	
Hugh P Clancy	
Darren C Higgins	
Stephen Montgomery	
Andrew A Watkins	
Elizabeth A Collins	(resigned 01 June 2021)
Michael J Nelson	
Matthew L Golton	(appointed 01 June 2021)
Carolann James	

Donations

The Company has not made any donations to a registered political party, or other political organisation in the year.

Statement of corporate governance arrangements

The Company is a subsidiary of FirstGroup plc, a UK premium listed Company that is subject to the UK Corporate Governance Code 2018 (the "Code"). In accordance with the Listing Rules, FirstGroup plc has included a detailed corporate governance report in its 2022 Annual Report and Accounts describing how FirstGroup plc has applied the Code's main principles and highlighting any non-compliance with the Code. The 2022 Annual Report and Accounts are available on FirstGroup plc's website (www.firstgroupplc.com).

As FirstGroup plc applies the Code throughout the Group, its corporate governance report also describes corporate governance at subsidiary level. The Company has not adopted any corporate governance code; however, they have applied the principles of the UK corporate governance code adopted by FirstGroup plc.

The Code contains to a substantial extent principles and provisions that are concerned with the listed parent Company only and which are therefore not applicable to the Company.

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 March 2022

Statement of corporate governance arrangements (continued)
These particular principles and provisions of the Code are applied by FirstGroup plc on a comply or explain basis.

They relate, for example, to the role of the FirstGroup plc board in engaging with shareholders, processes for board appointments, succession and evaluation, directors' remuneration and subsidiary with no external shareholders, these elements of the Code are not applicable and so were not applied by the Company.

Other parts of the Code can be seen to apply to the Group as a whole, including the Code's focus on promoting long-term sustainable success and contributing to society and the Code's requirement that workforce policies and practices are consistent with the Company's values.

Subsidiary level governance framework
The Board is comprised of 9 directors and their role is to:

- Execute the Company's strategic direction
- Ensure the values and culture aligned with that of the Group
- Establish a framework of prudent and effective controls to enable the Company's risks to be assessed and managed
- Engage effectively with shareholders and stakeholders
- Ensure workforce policies and practices are implemented which are consistent with the values and support the Company's long-term sustainable success
- Ensure there are mechanisms in place that allow the workforce to raise any matters of concern
- Provide effective governance and stewardship of the Company's assets
- Ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulation

The Board will, either directly or through First Rail Holdings Limited, provide papers to the FirstGroup plc Board or FirstGroup plc Board Committees, as appropriate, for consideration and approval. Through the authority delegated from FirstGroup plc, the Company is able to operate our business.

The Board meets on 10 occasions per year and on an ad hoc basis, as dictated by business needs. Papers are circulated in advance and the Company Secretary or the Executive Sponsor are available to brief those directors who are not available to attend meetings in person due to prior unavoidable commitments.

Statement of corporate governance arrangements (continued)

The Board has established the following committees to help it discharge its responsibilities more efficiently:

- Executive Meetings
- Executive Safety Group
- Alliance Governance Board
- Claims Steering Group
- Project Governance Boards

Quarterly Business Reviews

Employee engagement
Communication with employees is affected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the central and depot negotiating committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests.

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

Disabled persons
The Company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement, which must 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.

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.

Liquidity within the Company has remained strong throughout the current year due to the nature of the rail industry with the vast majority of turnover transactions paid for in advance. The Company does not enter directly into any derivative financial instruments.

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 March 2022

Financial matters
Under FRS 102 the Company has taken advantage of several 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.

Future events
Given the events of the past year, the directors are satisfied with the performance of the Company for the year. Future events have been considered by the directors within the Strategic Report. Coronavirus is expected to continue to impact future events in the near term.

Engagement with customers, suppliers and other key stakeholders
The Section 172 report contained within the Strategic Report outlines the primary ways in which the Company fosters its business relationships with its key stakeholders.

Directors' indemnities
The Company's ultimate parent company, FirstGroup plc, has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

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 auditors are 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment was passed at FirstGroup plc's Annual General Meeting on 27 July 2022.

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

8th Floor
The Point
37 North Wharf Road
London
W2 1AF

Carolann James
Director
04 August 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

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

Carolann James
Director
04 August 2022

8th Floor
The Point
37 North Wharf Road
London
W2 1AF

Independent auditors' report to the members of First Transpennine Express Limited

Report on the audit of the financial statements

Opinion

In our opinion, First Transpennine Express Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2022; the Profit and loss account, the Statement of comprehensive income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of health and safety regulations under the Health and Safety At Work Act and The Railway Safety Levy Regulations 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance and management bias in determining significant accounting estimates. Audit procedures performed by the engagement team included:

- Obtaining supporting evidence for the significant assumptions and judgements made by management, particularly in respect of pensions accounting and contract and franchise accounting;
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations;
- Enquiring with management and those charged with governance to understand the relevant laws and regulations applicable to the company, and their assessment of fraud related risks;
- Identifying and testing journal entries using a risk based targeting approach including unusual account combinations that could impact revenue; and
- Evaluation of management's controls designed to prevent and detect fraudulent financial reporting.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Victoria Coe

Victoria Coe (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
4 August 2022

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2022

	Note	2022 £000	2021 £000
Turnover			
– *General*	4	420,899	377,822
– Exceptional	4	-	59,883
Other operating income	5	8,872	-
		429,771	437,705
Operating costs			
– General	6	(421,789)	(364,755)
Total operating costs		(421,789)	(364,755)
Operating profit		7,982	72,950
Interest payable and similar expenses	10	-	(1,084)
Interest receivable and similar income	10	43	323
Net interest receivable/(payable)		43	(761)
Profit before taxation	11	8,025	72,189
Tax	12	2,562	(13,400)
Profit for the financial year		10,587	58,789

All activities relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2022

	Note	2022 £000	2021 £000
Profit for the financial year		10,587	58,789
Actuarial gain/(loss) due to scheme assets and liabilities	23	61,581	(24,843)
Actuarial (loss)/gain due to rail franchise adjustment Shared cost	23	(61,581)	24,843
Total other comprehensive income for the year		-	-
Total comprehensive income for the year		10,587	58,789

BALANCE SHEET
At 31 March 2022

	Note	2022 £000	2022 £000	2021 £000	2021 £000
Fixed assets					
Intangible assets	13		197		359
Tangible assets	14		11,903		18,586
			12,100		18,945
Current assets					
Stock	15	250		147	
Debtors	16	52,772		51,279	
Cash at bank and in hand		50,298		64,621	
		103,320		116,047	
Creditors: amounts falling due within one year	17	(97,874)		(124,771)	
Provisions for liabilities and charges: amounts falling due within one year	18	-		(555)	
Net current liabilities			5,446		(9,279)
Total assets less current liabilities			17,546		9,666
Creditors: amounts falling due after more than one year	17		(47,298)		(50,417)
Provisions for liabilities and charges: amounts falling due after more than one year	18		(2,816)		(2,404)
Pension liability	23		-		-
Net liabilities			(32,568)		(43,155)
Capital and reserves					
Called up share capital	20		-		-
Profit and loss account			(32,568)		(43,155)
Shareholders' deficit			(32,568)		(43,155)

The accompanying notes on pages 26 to 49 are an integral part of these financial statements.

The financial statements of First Transpennine Express Limited (Company Number: 09111801) on pages 23 to 49 were approved by the Board of Directors on 04 August 2022 and were signed on its behalf by:

Carolann James
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2022

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2020	-	**(101,944)**	**(101,944)**
Total comprehensive incomes for the financial year	-	58,789	58,789
Balance at 31 March 2021	-	**(43,155)**	**(43,155)**
Total comprehensive income for the financial year		10,587	10,587
Balance at 31 March 2022	-	**(32,568)**	**(32,568)**

1 General information

First Transpennine Express Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and registered in England, United Kingdom. The registered office address is The Point, 8th Floor, 37 North Wharf Road, London W2 1AF. The nature of the company's operations and its principal activities are set out in the Strategic report on page 1.

2 Statement of compliance

The financial statements of First Transpennine Express Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

3 Principal accounting policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, modified to include certain items at fair value in accordance with FRS 102.

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

(b) Going concern

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the Company's ability to continue as a going concern for at least the twelve months from the date of the financial statements.
The major assumptions and key areas of judgement incorporated in the modelling included:

- the longer term impact of a Coronavirus on customers travel patterns and the recovery of the UK economy;
- the terms of the National Rail Contract;
- the potential impacts on financial and trading performance of the risks held by First Transpennine Express Limited under the NRC;
- the protection provided within the National Rail Contract;
- the assumption that the DfT's contractual right to extend the NRC with the company will be enacted, and
- the timing of working capital flows and the protections afforded by the NRC under the working capital mechanism which seeks to maintain the Company's cash position between a floor and a ceiling.

These financial forecasts assume the business seeing a gradual return in passenger revenues, although this is unlikely to result in smooth growth as the UK economy recovers from Covid-19 and customers adjust to the new normal. During the financial year fiscal and contractual support that underpinned businesses ceased and COVID restrictions were lessened and eventually removed. However, given the terms of the NRC it was not considered necessary to run passenger revenue and demand related stress tests.

3 Principal accounting policies (continued)

(b) Going concern (continued)

The agreement and commencement of the NRC has sought to resolve any materially uncertainties as outlined below:

- the levels of fiscal and financial support has been agreed up until 31 March 2023 at which point the financial support is reset based upon agreement of the annual business plan;
- contractual support has been agreed through agreement of the NRC this provides a 2 year contract with the DfT's option to extend for a further 2 years until 23 May 2025;
- whilst significant uncertainty remains over passenger volumes recovery, this risk is no longer borne by the Company, under the NRC contract the DfT bears all revenue risk;
- the contractual payment mechanism is set out and has been agreed in the NRC. This gives the Company greater certainty and foresight in respect of the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support;
- the value and agreement of the termination fee for the Franchise Agreement as set out within the ERMA has been agreed and was settled in the year; and
- the parent company support and bonding requirements under the NRC are significantly lower than those offered under the Franchise Agreement.

Parent Company Support
As at 31 March 2022, the company had net current liabilities of £5.4m (2021: £9.3m) and net liabilities of £32.6m (2021: £43.2m). At the date of signing these financial statements, a letter of support has been provided by the ultimate parent company, FirstGroup plc, stating that it will provide the company with funding up to the limit of the contingent commitments (for parent company support (£63.7m) as set out in the Funding Deed, details of which are disclosed in note 22, Contingent liabilities.

Statement on NRC Extension
In light of DfT's contractual roadmap, its contractual right to extend the NRC with the company and the PIN issued to TPE by DfT on 15 March 2022, with Operator of Last Resort as the only remote alternative, the directors believe there is reasonable expectation that the company will continue to operate for the foreseeable future and at least twelve months from the date of approval of the financial statements, under an extended NRC contract.
The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support for a period of at least twelve months from the date of approval of these financial statements.

Going concern statement
Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the company is exposed, the directors believe that the company has adequate resources to continue in operational existence for at least the twelve-month period from the date on which the financial statements were approved.
Accordingly, the financial statements have been prepared on a going concern basis.

3 Principal accounting policies (continued)

(c) Exemptions for qualifying entities under FRS 102

The financial statements have been prepared under a historical cost convention and on a going concern basis as described in the Strategic Report on page 4, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and in accordance with the Companies Act 2006.

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.

(d) Tangible assets and depreciation

Tangible 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 assets over the shorter of their estimated useful economic lives or the duration of the contract. Our depreciation policy is as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Assets under construction

Assets under construction are stated at cost. These assets are not depreciated until they are available for use.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(e) *Intangible assets and amortisation*

Intangible 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 assets over the shorter of their estimated useful economic lives or the duration of the contract. Our amortisation policy is as follows:

Computer Software

- 3 to 5 years straight-line/duration of contract

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

3 Principal accounting policies (continued)

(f) Leases and Hire purchase

The Company continues to account for leases under FRS 102 where 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. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

(g) 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.

(h) Turnover

Turnover (Revenue) is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business and is shown net of VAT where appropriate.

Passenger revenue

The Company has one principal class of business, namely, the provision of passenger transport services. Passenger revenues primarily relate to ticket sales and is attributable to the Company predominantly based on models of route usage, by the Railway Settlement Plan. Passenger revenue is recognised at both a point in time and over time. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided

Rail franchise subsidy receipts

The Company's turnover also includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Amounts receivable from the DfT are set out in the franchise agreement for each year of the franchise, but have been adjusted to reflect arrangements under the ERMA and NRC. Net ERMA/NRC funding including management and performance fees are recognised as revenue in Rail franchise subsidy receipts as well, in line with other franchise subsidy receipts from the DfT.

The Company recognises other revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity; and (e) when the specific criteria relating to the each of Company's sales channels have been met.

Turnover from non-passenger receipts include rents receivable on property, commission on ticket sales, advertising receipts and other sundry income.

3 Principal accounting policies (continued)

(i) Financial assets and liabilities

All financial assets and liabilities are measured at transaction price (including transaction cost). All the financial assets and liabilities are classified as 'basic' under Section 11 & 12 of FRS 102. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method.

(j) Impairment of investments and tangible fixed assets

At each balance sheet date, the company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

(k) Impairment of financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

(l) 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.

(m) Pension costs

Company specific schemes

The Company participates in the Railways Pension Scheme (RPS), which is an industry-wide defined benefit scheme. The Company is obligated to fund the relevant section of the scheme over the period for which the franchise is held. The full liability is recognised on the balance sheet, which is then reduced by a franchise adjustment so that the net liability reflects the Company's obligations to fund the scheme over the franchise term, subject to any changes in the schedule of contributions following a statutory valuation.

3 Principal accounting policies (continued)

(m) Pension costs (continued)

Company specific schemes (continued)

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 to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.
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. The interest cost on the net pension scheme liability is shown in net interest receivable/(payable). 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 credit 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 is presented separately after other assets on the face of the balance sheet.

The Company also operates a defined contribution scheme for all qualifying members. Expenses from the schemes are charged to the profit and loss account.

Rail Franchise adjustment

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 plc'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 financial statements.

(n) Share based payments

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

Fair value is measured by use of a Black-Scholes model 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.

3 Principal accounting policies (continued)

(o) Grants and subsidies

Government grants are accounted for under the accruals model as permitted by FRS 102. Grants relating to assets are recognised in "other operating income" within profit or loss on a systematic basis over the expected useful life of the assets concerned. All other grants are recognised in other operating income within profit or loss in the same period as the related expenditure. Other than as disclosed in note 4. The Company has not directly benefited from any other forms of government assistance.

(p) 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.

(q) 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 due in one year.

(r) 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

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), which covers the whole of the UK rail industry.

In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer and 40% employee. At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee.

The Company only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and the Company is responsible for the funding of these sections while it operates the franchise.

3 **Principal accounting policies (continued)**

(r) Critical accounting judgements and key sources of estimation uncertainty (continued)

(i) Critical accounting judgements (continued)

Defined benefits pension arrangements (continued)

At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee. At each balance sheet date, a franchise adjustment is recognised against the FRS 102 net pension asset or liability to reflect that portion expected to pass to the next franchisee. As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current franchisee.

In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the income statement. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the income statement, whilst changes in actuarial assumptions continue to be recognised through other comprehensive income. The Directors consider this to be the most appropriate interpretation of FRS 102 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise.

The pension scheme retirement benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key judgement is the longevity of members.

We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account the scheme's characteristics. Our approach is to review these assumptions for the scheme following completion of their funding valuations, and more frequently only if appropriate to do so.

The Pension Regulator (TPR) has been in discussions with the RPS (the Scheme) regarding the long-term funding strategy of the Scheme. Whilst TPR believed that a higher level of funding is

required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

(ii) Key sources of estimation uncertainty

Contract and franchise accounting

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.

3 *Principal accounting policies (continued)*

(r) Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Key sources of estimation uncertainty (continued)

Contract and franchise accounting (continued)

Estimates are made on an ongoing basis about the recoverability of amounts due and the carrying value of assets and liabilities arising from the Company's franchise and long-term contracts.

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.

The Company has received contractual and direct fiscal support as a result of coronavirus. The key fundamental principle to the basis of preparation of the financial statements is that this support will continue to be provided until passenger volumes and operated service activities return towards pre-coronavirus levels.

Under the ERMA all revenue and cost risk transferred to the government until 28 May 2023. The Company is paid a management fee to continue running a revised National Rail timetable.

Net ERMA funding, including the management fee, is recognised as revenue in Rail franchise subsidy receipts, in line with the revenue recognition policy for franchise subsidy receipts from the DfT. The financial statements for the year ended 31 March 2022 have been prepared on the basis that the ERMA has been replaced with the NRC that continues until 28 May 2023. Turnover received under the ERMA/NRC for the year ended 31 March 2022 was £259.3m (2021: £325.0m).

4 *Turnover*

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 turnover 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. Other revenue includes rents receivable on property, commission on ticket sales, advertising receipts, grant amortisation and other sundry income.

4 Turnover (continued)

Turnover can be analysed as follows:

	2022	2021
	£000	£000
Passenger receipts	151,932	45,465
Traincrew services	768	1,087
Revenue subsidy	259,259	325,036
Other revenue	8,940	6,234
Exceptional income	-	59,883
	420,899	437,705

Exceptional Income

Last year, exceptional income of £59.9m was recognised in the profit and loss account. This primarily related to the net release of the residual onerous contract provision during last year of £52.2m and net credits from settlement agreements of £7.7m.

5 Other Operating income

	2022	2021
	£000	£000
Capital Grant Income	8,872	5,943
	8,872	5,943

Other operating income represents the amortisation of government grants related to capital schemes released in the profit and loss during the year. This was netted off against other operating costs in prior year.

6 Operating costs

	2022	2021
	£000	£000
Station & track access and facilities	67,695	66,024
Rolling stock lease costs	59,246	56,530
Staff costs (note 7)	93,018	88,716
External charges	192,954	145,756
Intangible asset amortisation (note 13)	372	214
Tangible asset depreciation (note 14)	8,475	7,515
Loss on disposal of assets	29	-
	421,789	364,755

The increase in other external charges versus the prior year is mainly due to the prior year reflecting the utilisation of the onerous contract provision and the recognition of the amount recoverable from the DfT contract.

Rolling stock lease costs include the capital rent under the lease agreements only. Other rolling stock charge are included in the External charges.

7 Employee numbers and costs

The average periodic number of persons employed by the Company (including directors) during the 13 rail periods of the year was as follows:

	2022 Actuals	2021 Actuals	2022 FTE	2021 FTE
Traincrew including traincrew management	649	642	644	636
Customer service	611	589	596	575
Administration	251	204	236	190
	1,511	1,435	1,476	1,401

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	79,435	75,545
Social security costs	8,681	8,472
Other pension costs	4,902	4,699
	93,018	88,716

8 Directors' remuneration

Certain directors (Clive Burrows, Stephen Montgomery, Michael Nelson and Hugh Clancy) received remuneration from FirstGroup plc, the ultimate parent Company, and First Rail Holdings Limited, the immediate parent Company, in the current and previous years, details of which are disclosed in their report and financial statements.

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:

	2022 £000	2021 £000
Aggregate emoluments (excluding pension contributions)	526	549
Contributions to defined benefit schemes	40	35

Directors' emoluments include salary, fees, bonuses, sums paid by way of expense allowances subject to UK income tax and the money value of other non-cash benefits and exclude share options, Company pension contributions and payments made under long-term incentive schemes.

8 Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:

	2022 £000	2021 £000
Aggregate emoluments	229	229
Defined benefit scheme		
Accrued pension at year end	3	59
Accrued lump sum at end of year	2	49

The highest paid director is entitled to receive shares under the FirstGroup long-term incentive plan. Certain share options were exercised during the year by the highest paid director.

9 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 £124,000 (2021: £327,000) relating to equity-settled share-based payment transactions.

	2022 £000	2021 £000
Total expense recognised in the profit and loss account	124	327
Contribution paid to First Rail Holdings Limited (parent Company)	(124)	(327)
Credited to shareholder funds	-	-

Share-based payment expense comprises costs arising from FirstGroup plc shares schemes including Save As You Earn, Employee Share Plan and Deferred Bonus Shares. Further details on these share schemes can be found in the FirstGroup plc Annual Report and Financial statements.

10 Net interest receivable/(payable)

	2022 £'000	2021 £'000
Interest payable and similar charges		
Unwind of discount on contract provision	-	(1,084)
Interest payable and similar charges	-	(1,084)
Interest receivable and similar income		
Bank interest receivable	43	70
Interest received on inter-company	-	253
Interest receivable and similar income	43	323
Net interest receivable/(payable)	43	(761)

11 Profit before taxation

	2022 £000	2021 £000
Profit before taxation is stated after charging:		
Auditors' remuneration		
-Audit fee for the audit of the annual accounts	201	113
Depreciation on tangible owned assets	8,475	7,515
Intangible asset amortisation	372	214
Rentals payable under operating leases		
- Property	271	271
- other operating leases	113,291	122,169

In accordance with SI 2008/489, the company has utilised the exemption to not disclose the fees payable to the company's auditors for services other than the statutory audit of the company, as this information for non-audit fees is included in the consolidated financial statements of the ultimate parent company, FirstGroup plc.

Other operating lease costs also include costs under contracts with Network Rail and rolling stocks.

12 Tax

	2022 £000	2021 £000
Current taxation		
- UK corporation tax charge for the year	-	5,447
- Group Relief receivable	(471)	(317)
- Adjustment in respect of prior years	(758)	-
Total current taxation	(1,229)	5,130
Deferred taxation		
- Origination and reversal of timing differences	2,004	8,583
- Recognition of previously unrecognised tax losses	(3,325)	-
- Adjustment in respect of prior years	(12)	(313)
Total deferred taxation	(1,333)	8,270
Total tax (credit)/charge on profit	(2,562)	13,400

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2021: 19%).

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:

	2022 £'000	2021 £'000
Profit multiplied by standard rate of corporation tax in the United Kingdom of 19% (2021: 19%)	1,525	13,716
Expenses not deductible for tax purposes	8	(3)
Prior year adjustments	(770)	(313)
Recognition of previously unrecognised tax losses	(3,325)	-
Total tax (credit)/charge	(2,562)	13,400

Deferred tax assets for brought forward losses, which had previously not been recognised, have now been recognised given the current year profits and to the extent that forecast profits are now probable to offset these losses.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Legislation increasing the rate to 25% was substantively enacted on 24 May 2021. Deferred tax continues to be provided for at 19% as the recognised temporary differences are expected to unwind before 1 April 2023 and therefore the closing deferred tax asset is expected to unwind and reduce the charge to Corporation Tax by £1,767,000.

13 Intangible assets

	Computer software
Cost	£000
At 1 April 2021	1,078
Additions	210
At 31 March 2022	1,288
Accumulated amortisation	
At 1 April 2021	719
Charge for year	372
At 31 March 2022	1,091
Net book value	
At 31 March 2021	359
At 31 March 2022	197

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.

14 Tangible assets

	Plant and equipment £000
Cost	
At 1 April 2021	37,010
Additions	1,818
Disposal	(142)
At 31 March 2022	38,686
Accumulated depreciation	
At 1 April 2021	18,424
Charge for year	8,475
Disposal	(116)
At 31 March 2022	26,783
Net book value	
At 31 March 2021	18,586
At 31 March 2022	11,903

Included in plant and equipment is £499k (2021: £23k) of assets under construction, which are not depreciated until they are brought into use. This primarily relates to depot, platform extensions and traincrew accommodation improvement works.

15 Stock

	2022 £000	2021 £000
Fuel	250	147

16 Debtors

	2022 £000	2021 £000
Amounts due within one year		
Trade debtors (including amounts recoverable from Network Rail)	24,345	9,520
Amounts recoverable on contracts	-	24,237
EMA/ERMA/NRC funding	18,037	4,784
Amounts owed by group undertakings	787	206
Other debtors (primarily VAT)	3,055	3,026
Prepayments and accrued income	876	1,478
Deferred tax asset (note 19)	1,767	434
Group tax relief	1,467	7,594
Corporation tax	2,438	-
	52,772	51,279

Amounts owed by from group undertakings relate primarily to charges due from Hull Trains Company Limited, First Rail Holdings Limited, First Great Western Limited, East Coast Trains Limited and are due within 28 days of invoice date.

Trade debtors are stated after provisions for impairment of £1.2m (2021: £0.4m). Trade debtors includes £nil (2021: £nil) falling due after more than one year.

17 Creditors

	2022 £000	2021 £000
Amounts falling due within one year		
Trade creditors	19,396	8,657
Amounts owed to group undertakings	4,744	4,611
Other taxation and social security	1,886	2,104
Other creditors	1,478	1,897
Accruals	47,760	75,642
Deferred income	22,610	26,413
Corporation tax	-	5,447
	97,874	124,771
Amounts falling due after more than one year		
Amounts owed to group undertakings	45,913	45,913
Deferred capital income	1,385	4,504
	47,298	50,417
	145,172	175,188

During the current year no further parent company support loan was drawn down, bringing the overall total to £45.9m. This is an interest-bearing loan, with a fixed rate of 7% per annum, with no repayment schedule.
All other intercompany transactions are payable within 28 days and are interest-free.

18 Provisions for liabilities and charges

Amounts falling due within one year	2022 £000	2021 £000
Other obligations	-	(555)
At 31 March 2022	-	(555)

Amounts falling due after more than one year	2022 £000	2021 £000
Other obligations	(2,816)	(2,404)
At 31 March 2022	(2,816)	(2,404)

Total Provision for liabilities and charges	(2,816)	(2,959)

At 31 March 2022, other obligations includes the dilapidation provisions of £2.787m (2021: £2.404m). This is made up of the liabilities for the class 185, 397, 802, 68 and Mrk5 train fleets as well as remaining liabilities at office and traincrew locations around the network. The remainder £29k relates to obligations as a result of entering into the NRC. As a result of entering into the NRC, the company still has liabilities for performance and parent company support bond fees that were in existence under the old franchise agreement.

19 Deferred taxation

	£000
Asset at 1 April 2021	434
Credited to Profit and Loss Account	1,333
Asset at 31 March 2022	1,767

The deferred tax asset comprises:

	2022 £000	2021 £000
Capital allowances less than depreciation	217	310
Other timing differences	125	124
Losses	1,425	-
Deferred tax asset	1,767	434

£3.0m of losses have not been recognised for Deferred Tax, as there may not be sufficient future profits to offset these losses.

20 Called up share capital

	2022	2021
	£	£
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

The share carries no right to fixed income nor confer any rights of redemption.

21 Commitments

Capital commitments

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

	2022	2021
	£'000	£'000
Contracted for but not provided	962	258

Capital commitments relate to tangible fixed assets, primarily accommodation and platforms expansion programmes.

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:

	2022	2021
	£000	£000
Operating leases which expire:		
Within one year	113,910	120,594
Between one and five years	18,348	119,626
	132,258	240,220

Included in the above commitments within one year are contracts with Network Rail and Siemens for access to the railway infrastructure track, stations and depots of £54.8m (2021: £61.6m) and property lease of £0.5m (2021: £0.3m).

22 Contingent liabilities

Under the existing Funding Deed, FirstGroup plc has agreed to provide a Parent Company Guarantee (PCG) of £63.7m (2021: £63.7m), of which £42.5m (2021: £42.5m) has already been advanced with £4.7m repaid during the year, leaving a remaining facility of £25.9m (2021: £21.2m).

Under the NRC there are further facilities in place up to £1.6m of Parent Company Guarantee Facility of which £0.8m (50%) is bonded and Early Termination indemnity Agreement Facility of which £2.5m (50%) is bonded.

Both facilities can be called if events generate a required PCG Amount. The required PCG Amount calculation is equal to the Potential or Actual Annual Losses.

23 *Pension liability*

Railways Pension Scheme - TransPennine Express Section

Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the profit and loss account in the period ended 31 March 2022 was £0.1m (2021: £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 £4.8m (2021: £4.9m).

The company's responsibility is to pay the contributions following triennial funding valuations whilst it operates the NRC.

These contributions are subject to change on consideration of future statutory valuations. In addition, at the end of the NRC, any deficit or surplus in the scheme section passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder.

The scheme is valued triennially, when the cost of the 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 was 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 Pensions Schemes for the Train Operating Companies are still ongoing and this process is likely to continue for some time. Until the valuation is complete, the investment strategy and the cash contributions remain unchanged from those agreed as part of the 2013 valuation. The 2019 valuation is progressing and has been updated for 31 March 2022; at this date the market value of the scheme's assets totalled £242.4m, £89.5m for the former First North Western section and £152.9m for the former Arriva Trains Northern section. The actuarial value of these assets was sufficient to cover 67% (2021: 57%) 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. Members of the scheme are classified as either Category 60 or Category 62 members (as defined in the Rules of the Scheme).

23 Pension liability (continued)

Defined benefit schemes (continued)

The table below outlines the current contribution rates for the Category 60 and 62 members of both Sections.

	Former First North Western Trains Shared Cost Section				Former Arriva Trains Northern Shared Cost Section			
	Category 60	Category 60	Category 62	Category 62	Category 60	Category 60	Category 62	Category 62
	2022	2021	2022	2021	2022	2021	2022	2021
Employees %	7.62	7.62	6.58	6.58	7.75	7.75	6.71	6.71
Employers %	11.44	11.44	9.88	9.88	11.63	11.63	10.07	10.07
Total	**19.06**	**19.06**	**16.46**	**16.46**	**19.38**	**19.38**	**16.78**	**16.78**

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered under FRS 102. The contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under FRS 102 and. the company does not account for uncommitted contributions towards its current or expected future deficits. Therefore, the company does not need to reflect any deficit on its balance sheet.

A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the company's members.

This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions. The franchise adjustment on the balance sheet date reflects the extent to which the company is not currently committed to fund the deficit.

The actuarial assumptions used in determining the last full actuarial valuation (31 December 2013) were that the rate of return on investments will be 7.59% per annum; the rate of earnings increase will be 3.43% per annum and the rate of inflation will be (RPI/CPI) 3.30%/2.93% per annum. The valuation was made using the projected unit method.

At the previous year end, we noted that The Pensions Regulator (TPR) had been in discussion with the RPS (the Scheme) regarding the assumptions used to determine the scheme's funding requirements. Discussions are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme.

23 Pension liability (continued)

Defined benefit schemes (continued)

Financial assumptions

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

	2022 £000	2021 £000
Rate of increase in salaries	3.43%	3.05%
Rate of increase of pensions in payment	2.93%	2.50%
Rate of increase of pensions in deferment	2.93%	2.55%
Discount rate	2.83%	2.05%
Inflation assumption – RPI	3.30%	3.05%
Inflation assumption – CPI	2.93%	2.55%

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 (2021: 20.4 years); future pensioners at 65 aged (45 now), 22.1 years (2021: 21.9 years).

Asset values

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

	2022 £000	2021 £000
Real Estate	29,006	600
Private Equity	141,650	14,700
Cash and cash equivalents	815	2,200
Other return seeking assets[1]	70,896	193,827
	242,367	211,327

[1] 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. As at the reporting date, the Growth Pooled Fund was invested predominantly in a range of Equity investments.

23 Pension liability (continued)

Defined benefit schemes (continued)

Reconciliation of movements

	Assets £000	Liabilities £000	Shared cost £000	Franchise impact £000	Net £000
Balance sheet at 1 April 2020	171,699	(291,938)	48,096	72,143	-
Income Statement					
Operating					
- Service cost	-	(18,357)	7,343	6,831	(4,183)
- Administration cost	-	(830)	332	-	(498)
- Past service gain including curtailments	-	-	-	-	-
Total Operating cost	-	(19,187)	7,675	6,831	(4,681)
Financing	4,144	(6,723)	1,031	1,548	-
Total Income Statement	4,144	(25,910)	8,706	8,379	(4,681)
Amounts from / (paid to) scheme					
Employer contributions	4,681	-	(1,872)	1,872	4,681
BRASS matching contributions	-	-	-	-	-
Employee contributions	2,911	-	(1,165)	(1,746)	-
Benefits paid	(5,818)	5,818	-	-	-
Total	1,774	5,818	(3,037)	126	4,681
Expected closing position	177,617	(312,030)	53,765	80,648	-
Gains / (losses)					
Change in financial assumptions	-	(79,052)	31,621	47,431	-
Change in demographic assumptions	-	19,850	(7,940)	(11,910)	-
Return on assets in excess of discount rate	33,710	-	(13,484)	(20,226)	-
Experience	-	649	(260)	(389)	-
Total	33,710	(58,553)	9,937	14,906	-
Balance sheet at 31 March 2021	211,327	(370,583)	63,702	95,554	-

23 Pension liability (continued)

Defined benefit schemes (continued)

Asset values (continued)

Reconciliation of movements (continued)

	Assets £000	Liabilities £000	Shared cost £000	Franchise impact £000	Net £000
Balance sheet at 1 April 2021	211,327	(370,583)	63,702	95,554	-
Income Statement					
Operating					
- Service cost	-	(24,355)	9,742	10,254	(4,359)
- Administration cost	-	(821)	328	-	(493)
- Past service gain including curtailments	-	-	-	-	-
Total Operating cost	-	(25,176)	10,070	10,254	(4,852)
Financing	4,463	(7,303)	1,136	1,704	-
Total Income Statement	4,463	(32,479)	11,206	11,958	(4,852)
Amounts from / (paid to) scheme					
Employer contributions	4,852	-	(1,941)	1,941	4,852
BRASS matching contributions	-	-	-	-	-
Employee contributions	3,173	-	(1,269)	(1,904)	-
Benefits paid	(5,005)	5,005	-	-	-
Total	3,020	5,005	(3,210)	37	4,852
Expected closing position	218,810	(398,057)	71,698	107,549	-
Gains / (Losses)					
Change in financial assumptions	-	39,748	(15,899)	(23,849)	-
Change in demographic assumptions	-	-	-	-	-
Return on assets in excess of discount rate	23,550	-	(9,420)	(14,130)	-
Experience	-	(1,717)	687	1,030	-
Total	23,550	38,031	(24,632)	(36,949)	-
Balance sheet at 31 March 2022	242,360	(360,026)	47,066	70,600	-

24 Ultimate parent Company

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

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

Copies of the accounts of FirstGroup plc can be obtained on request from The Point, 37 North Wharf Road, Paddington, London, W2 1AF.