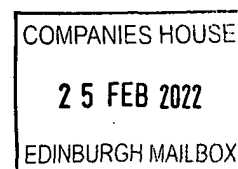


FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021



**Company Registered
Number: 09111801**

FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

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STRATEGIC REPORT**For the year ended 31 March 2021**

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

Principal activities

The Company operates intercity passenger railway services in the north of England and in Scotland, connecting Manchester and Manchester Airport with Liverpool, Leeds, York, Newcastle, Sheffield, Hull, Preston, Glasgow and Edinburgh.

In the year under review, the Company operated under the Emergency Measures Agreement (“EMA”) until 20 September 2020 and then the Emergency Recovery Measures Agreement (“ERMA”) which ended at 01:59 on 30 May 2021, both of which were additions to and worked with the underlying Franchise Agreement. At 02:00 on 30 May 2021 the business entered into a new National Rail Contract (“NRC”) with the Department for Transport (DfT). 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 another 2 years. Under the EMA and ERMA, which operated through the current year, DfT took the revenue, cost and contingent capital risk through payment of a subsidy to TPE.

The long-term ambition for the NRC is to enable the Company to continue to evolve into the true intercity operator for the North. To that end, capacity has been significantly increased with the Company introducing the first of 220 new carriages from late 2020, comprising Hitachi Intercity Express-type trains and a further intercity fleet from Construcciones y Auxillar de Ferrocarriles (CAF).

Business review

In the year, the Company made operating profit of £73m (2020: £nil). Turnover increased to £437.7m (2020: £290.2m), however, passenger receipts fell by 82.3% (2020: grew by 0.4%) over the year (2021: £45.5m versus 2020: £257.4m) due to the impact of the pandemic, however the impact was largely mitigated by the revenue subsidy received from the DfT of £325m (2020: £18.1m). Coronavirus restrictions were in place throughout the entirety of the financial year to varying degrees. Lockdown 1 was in place from week 1 to week 5, with tier 3 / 4 and further lockdown restrictions being imposed from week 30 to week 49.

The Company turnover also includes exceptional income of £59.9m (2020: £nil) 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 (Note 15). At March 2021, the Company was in a net liability position of £43.2m (2020: £101.9m).

Throughout the year, under both the EMA and the ERMA, Train Operating Companies (“TOCs”), in collaboration with the DfT, operated a flexible timetable approach. This approach balanced emerging customer travel patterns as government advice and regulations changed with the cost of timetable provision. Under these agreements, TOCs and DfT collaborated on multiple initiatives to support the whole industry recover from the longer-term impacts of the pandemic on our customers. These included new products for customers returning to the office and support for an industry wide marketing campaign.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2021**

Business review (continued)

During the year, the Company's main focus was the pandemic and responding to the ever changing and unprecedented situation. As key workers, TPE colleagues pulled together to provide a vital service to those who relied on our services to get to work throughout the pandemic.

The Company increased its cleaning regime and put measures in place to keep customers and colleagues safe. During lockdown patronage dropped significantly, but The Company still continued to deliver a good and efficient operation. Customers were informed about what the Company had done to protect them during the pandemic through a reassurance campaign and the Company responded quickly to regular changes in government guidance. Despite the pandemic, colleague engagement increased, and the Company launched a number of wellbeing initiatives to make sure we were looking after our people during this challenging time period.

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.

Coronavirus Pandemic response

The UK Government acted swiftly to sustain the country's rail networks during the pandemic, ensuring services could continue to be operated for essential workers to travel by rail to perform their vital roles. In addition, throughout the Coronavirus pandemic, the Company has continued to use its position as part of the essential fabric of the communities in which it operates to deliver support and assistance during this challenging time. It is a responsible partner with customers and communities, and it works with community organisations across the network.

On 21 September 2020 the DfT introduced ERMA's for rail operators whose EMAs expired on 20 September 2021. The TPE ERMA operated until 01.59 on 30 May 2021, during which period the government continued to take the revenue, cost and contingent capital risk through payment of a subsidy to TPE, and TPE received a fixed management fee along with the possibility of earning a further performance-based fee.

During the year under review, the DfT stated its intention to transition TOCs to new, directly awarded contracts for the longer term, which would come into effect at the end of the ERMA's. To this end, it was required that by mid-December 2020 the TOC agreed with the DfT whether, and if so how much, parent Company support or other payments would be required to terminate the pre-existing Franchise Agreements. The Company reached an agreement with the DfT that no termination sums fell due at the end of the ERMA term, at which point the underlying Franchise Agreement also terminated by agreement.

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.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2021**

Current Trading and the future (continued)

The NRC has an initial 2-year term with an option to extend for a further 2 years. Under this agreement, TPE will bear no revenue risk and will have very limited cost risk under an annual budget agreed with DfT; there is also no significant contingent capital risk. In return, TPE will be paid a fixed management fee as well as the opportunity to earn an additional performance fee.

In May 2021, the Williams-Shapps Plan for Rail was published. This report has proposed the biggest change to the railways in 25 years with the aim of ending the fragmentation of the past and bringing the network under single national leadership. It will create a new public body, Great British Railways, which will own the infrastructure, receive the fare revenue, run and plan the network and set most fares and timetables. Great British Railways will absorb Network Rail and many of the functions from the Rail Delivery Group and the Department for Transport.

Operators will compete for Passenger Service Contracts that will include strong incentives for operators to run safe, high-quality punctual services, manage costs, attract more customers and innovate.

TPE has generated satisfactory returns despite challenging recent industry conditions and we are focused on working with our 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, local authorities and all industry partners to deliver projects while minimising disruption for passengers.

Our priorities and outlook

There are uncertainties as to how rapidly demand will recover. It is difficult to assess what effect the continued impact of the Coronavirus Pandemic might have on the wider economy and the areas in which we operate. However, this impact on the Company was mitigated by the ERMA arrangements up to 30 May 2021 and subsequently the NRC terms. 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 challenge presented by the pandemic, we continue with the Transpennine Route Upgrade Programme, we will bring customer benefits through more reliable journeys, improved customer information and enhanced customer experience; along with improved station facilities and roll out of smart ticketing. We believe that this will help drive the longer-term recovery in our annual patronage and revenue growth, from the reduced levels resulting from the effect of Coronavirus.

Whilst the Coronavirus Pandemic has brought new, significant challenges, the new NRC provides a contractual mechanism that provides mitigations against the impact of a number of other factors affecting the performance of our contract, including infrastructure reliability, timetabling delays and industrial action.

The Company continues to demonstrate strengths across the business, both operationally and from a fleet and infrastructure perspective. It is through the investment in infrastructure, stations, rolling stock and with new timetables that we will deliver improvements, which will transform the customer experience.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2021**

Our priorities and outlook (continued)

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.

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

First Transpennine Express Limited is a business that provides essential services to the communities it serves. Continuity of transport is proving essential to governments, local communities and many customers during the coronavirus pandemic. It will also 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 EMA and subsequently the ERMA / NRC, is testament to the importance of the offering to customers.

Government and stakeholders recognised the need to reduce services as passenger demand declined rapidly when lockdown orders were made. They also recognised that it was critical to provide funding to maintain essential services for key workers to get to their place of work, and to preserve the ability to restore services quickly when required. Since the nadir of service levels in March 2020, increased service levels have been reintroduced in stages with additional government support.

The impact of the Coronavirus on the business and the support being provided by government will continue to evolve throughout the coming months. The continued impact of the Coronavirus Pandemic on the wider economy and the transport sector within the market in which the business operates, remains unclear. Under the ERMA, and now the NRC, the government takes all revenue risk and substantially all cost risk and pays a fixed management fee with the potential for an additional performance fee.

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 likelihood of a coronavirus impact in the UK remaining in place for the foreseeable future;
- the terms of the NRC to 28 May 2023; and
- the timing of working capital flows.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2021

Going concern assessment (continued)

These financial forecasts included the terms of the NRC with the business seeing a gradual return in passenger revenues.

Given the extent to which the current terms of the NRC underpins the business at the present levels of passenger demand and the fact the company bears no revenue risk and very limited cost risk under an annual budget agreed with the DfT, it was not felt necessary to run alternative stress tests.

As at 31 March 2021, the company had net current liabilities of £9.3m (2020: £17.9m) and net liabilities of £43.2m (2020: £101.9m).

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 19, 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 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 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

The key non-financial performance indicators are as follows:

Train operating performance was 9.05% above targeted levels in 2020/21 with our industry standard public performance measure (PPM) moving average score standing at 94.05% (2020: 76.50%). PPM is determined by the number of trains which arrive at destination within the individual train operating Company benchmark target. This improvement was due to a number of factors, including reliability improvements of our new fleet and Network Rail infrastructure, improved traincrew resilience and targeted performance improvements across Service Group hotspots.

In the most recent independent National Rail Passenger Survey (NRPS) carried out by Transport Focus in Spring 2020, 'overall satisfaction with the journey' scored 78% (2020: 79%) against a target of 75% (2020: 85%). As recognised in Transport Focus' quality assurance statement, fieldwork for the survey was suspended in mid-March due to the pandemic and there were shortfalls in sample sizes (approx. 75% of the overall target).

The Company's average headcount in the year increased to 1,435 (2020: 1,321), an increase of 7.9%. This increase is mainly due to the recruitment of additional drivers and conductors to facilitate the introduction of new trains.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2021

Key Performance Indicators (continued)

The Company measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2021 was 71% (2020: 64%) against a target of 69%. This was a welcome improvement in employee engagement and a satisfactory result from the improvement plan that was implemented last year.

Principal risks and uncertainties

The Company's principal risks 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 very limited revenue risk and 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:

- the Company's 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, 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 practice in areas such as the cleaning and decontamination of trains, stations, depots and offices;

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

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. The contract requires significant change including the introduction of new trains, which will require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational risk to the Company.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2021**

Contractual agreements with the DfT (continued)

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.

Data security (including cyber security & GDPR)

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

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.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2021**

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 Railways Pension Scheme (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions have continued during 2020/21 and are ongoing, and the possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme. We continue to await the results of these discussions. The 2019 scheme valuation has commenced but any outcome will be held pending discussions stated above.

TPR and the DfT had requested that the Rail Delivery Group (RDG) coordinate the Train Operators' involvement in an industry wide review of scheme funding.

The RDG, comprising participants from each of the large owning groups, has been seeking to develop a framework which meets TPR, DfT, the Railways Pension Scheme 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 DfT agreements will allow the Scheme to continue with its current funding strategy in the short-term and therefore pension scheme assets and liabilities do not appear on the Company's balance sheet. 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 TPR's key objectives whilst maintaining stability and fairness, and retaining protection against unacceptable risk, for both operators and scheme members is achievable.

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.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2021**

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

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. 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 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.

STRATEGIC REPORT (CONTINUED)**For the year ended 31 March 2021**

Environment and climate change (continued)

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. 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 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 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.

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

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2021

Engaging ethically (continued)

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

STRATEGIC REPORT (CONTINUED)
For the year ended 31 March 2021

Engaging ethically (continued)**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:

Commencing in March 2020 and continuing to the date of this report, the Company has engaged 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.

The revised timetables also allowed the Company to minimize ongoing exposure to the coronavirus for the Company'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 included new driver training bubbles, new cleaning regimes for stations, trains and offices. The Company also procured additional IT equipment to enable office-based staff to work from home to help mitigate the risk of the infection spreading within office environments.

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

15 December 2021

DIRECTORS' REPORT**For the year ended 31 March 2021**

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2021.

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 (2020: £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)
Kevin Gardner	(resigned 29 May 2020)
Michael J Nelson	(appointed 01 June 2020)
Matthew L Golton	(appointed 01 June 2021)
Carolann James	(appointed 10 September 2020)

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 has included a detailed corporate governance report in its 2021 Annual Report and Accounts describing how FirstGroup has applied the Code's main principles and highlighting any non-compliance with the Code. The 2021 Annual Report and Accounts are available on FirstGroup's website (www.firstgroupplc.com).

As FirstGroup 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 2021**

Statement of corporate governance arrangements (continued)

These particular principles and provisions of the Code are applied by FirstGroup on a comply or explain basis.

They relate, for example, to the role of the FirstGroup board in engaging with shareholders, processes for board appointments, succession and evaluation, director remuneration and the role of the board's audit committee. Given the nature of the Company, as a wholly owned 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 8 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 Board or FirstGroup Board Committees, as appropriate, for consideration and approval. Through the authority delegated from FirstGroup, 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.

DIRECTORS' REPORT (CONTINUED)
For the year ended 31 March 2021

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 2021**

Financial matters

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 (2020: £nil).

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.

Events subsequent to the end of the year

The company entered into two Settlement Agreements with DfT in May 2021 that finalised the Franchise premium adjustments relating to the period before the start of the Emergency Measures Agreement on 1 March 2020.

The Emergency Measures Agreement (EMA), effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The EMA was replaced with an Emergency Recovery Measures Agreement (ERMA) that expired at 01.59 on 30 May 2021. At 02.00 on 30 May 2021 the National Rail Contract (NRC) with the DfT commenced.

Under the NRC the government takes revenue risk and a level of cost and contingent capital risk that is capped (subject to contractual changes) and pays a fixed management fee with the potential for an additional performance fee. This provides the company ongoing protection from the continuing loss of revenues resulting from Coronavirus.

The termination of the Franchise Agreement on 30 May 2021 and Termination Sum of £nil agreed with the DfT removes the expectation of future unavoidable losses under the contract and this has resulted in the subsequent net release of the onerous contract provision of £52.2m.

The company has also agreed amounts recoverable on contracts (as detailed in note 13) and franchise related accruals (as detailed in note 14) as part of the Settlement Agreements with the DfT in May 2021, the net impact of which was a credit to the profit and loss account of £7.7m.

The company has concluded that the termination of the ERMA-amended Franchise Agreement and the Settlement Agreements constitute adjusting post balance sheet events and has therefore reflected the financial impact of these Settlement Agreements in the financial statements for year ended 31 March 2021. Please refer to note 21.

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' REPORT (CONTINUED)

For the year ended 31 March 2021

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 auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

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
15 December 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

15 December 2021

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 2021 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 2021; 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.

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

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 2021 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, 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.

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

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 non-compliance with tax regulations 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. 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 manual journal entries to manipulate financial performance and management bias in determining significant accounting estimates. Audit procedures performed by the engagement team included:

- Reviewing minutes and the claims provision in respect of actual and potential claims and making enquiries of management regarding any unprovided claims;
- Obtaining supporting evidence for the significant assumptions and judgements made by management, particularly in respect of pensions accounting and franchise accounting;
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

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.

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

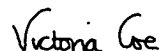
Other required reporting

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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
15 December 2021

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2021

	Note	2021 £000	2020 £000
Turnover			
– General	2	377,822	290,248
– Exceptional	2	<u>59,883</u>	<u>-</u>
		437,705	290,248
Operating costs			
– General	3	<u>(364,755)</u>	<u>(290,248)</u>
Total operating costs		(364,755)	(290,248)
Operating profit		72,950	-
Interest payable and similar expenses	7	(1,084)	(3,901)
Interest receivable and similar income	7	<u>323</u>	<u>370</u>
Net interest payable		<u>(761)</u>	<u>(3,531)</u>
Profit/(Loss) before taxation	8	72,189	(3,531)
Tax	9	<u>(13,400)</u>	<u>(3,054)</u>
Profit/(Loss) for the financial year		<u>58,789</u>	<u>(6,585)</u>

All activities relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2021

	Note	2021 £000	2020 £000
Loss for the financial year		58,789	(6,585)
Actuarial (loss)/gain due to scheme assets and liabilities	20	(24,843)	36,024
Actuarial gain/(loss) due to rail franchise adjustment			
Shared cost	20	<u>24,843</u>	<u>(36,024)</u>
Total other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income/(expense) for the year		<u>58,789</u>	<u>(6,585)</u>

BALANCE SHEET
At 31 March 2021

	Note	2021		2020	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	10		359		2,226
Tangible assets	11		<u>18,586</u>		<u>24,863</u>
			18,945		27,089
Current assets					
Stock	12		147		114
Debtors	13		51,279		108,636
Cash at bank and in hand			<u>64,621</u>		<u>55,968</u>
			116,047		164,718
Creditors: amounts falling due within one year	14		(124,771)		(181,907)
Provisions for liabilities and charges: amounts falling due within one year	15		<u>(555)</u>		<u>(680)</u>
Net current liabilities			<u>(9,279)</u>		<u>(17,869)</u>
Total assets less current liabilities			<u>9,666</u>		<u>9,220</u>
Creditors: amounts falling due after more than one year	14		(50,417)		(59,009)
Provisions for liabilities and charges: amounts falling due after more than one year	15		<u>(2,404)</u>		<u>(52,155)</u>
Net liabilities excluding pension liability			(43,155)		(101,944)
Pension liability	20		-		-
Net liabilities			<u>(43,155)</u>		<u>(101,944)</u>
Capital and reserves					
Called up share capital	17		-		-
Profit and loss account			(43,155)		(101,944)
Shareholders' deficit			<u>(43,155)</u>		<u>(101,944)</u>

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 15 December 2021 and were signed on its behalf by:



Carolann James
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2021

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 April 2019	-	(95,359)	(95,359)
Total comprehensive expenses for the financial year	-	(6,585)	(6,585)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2020	-	(101,944)	(101,944)
Total comprehensive income for the financial year		58,789	58,789
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2021	-	(43,155)	(43,155)
	<hr/>	<hr/>	<hr/>

1 Principal accounting policies

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

(a) General information and basis of accounting

First Transpennine Express Limited is a private Company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The registered office address is 8th Floor, The Point, 37 North Wharf Road, London, W2 1AF.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

(b) Basis of preparation

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. 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.

(c) 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 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 likelihood of a coronavirus impact in the UK remaining in place for the foreseeable future;
- the terms of the NRC to 28 May 2023; and
- the timing of working capital flows.

These financial forecasts included the terms of the NRC with the business seeing a gradual return in passenger revenues.

Given the extent to which the current terms of the NRC underpins the business at the present levels of passenger demand and the fact the company bears no revenue risk and very limited cost risk under an annual budget agreed with the DfT, it was not felt necessary to run alternative stress tests.

As at 31 March 2021, the company had net current liabilities of £9.3m (2020: £17.9m) and net liabilities of £43.2m (2020: £101.9m). 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 19, Contingent liabilities.

1 Principal accounting policies

(c) Going concern (continued)

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.

(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.

1 Principal accounting policies (continued)

(f) Leases

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 EMA and ERMA. Net EMA/ERMA 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.

1. Principal accounting policies (continued)

(h) Turnover (continued)

Other Revenue

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.

(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 of FRS 102. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method.

(j) 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.

(j) 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.

(k) 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.

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.

1. Principal accounting policies (continued)

(k) Pension costs (continued)

Company specific schemes (continued)

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's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flow of the Company's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and, in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to the Company and recognised in the accounts.

(m) 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.

During 2020 there was a change in approach on share-based payments with the Company's parent company now invoicing the Company for the amount of the annual charge. Under this approach there is no longer a credit to shareholder's funds to offset the annual share-based payment charge.

1 Principal accounting policies (continued)

(n) Grants and subsidies

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

(o) Impairment

Assets should be reviewed for impairment when circumstances indicate that an asset value may be impaired. When an asset's carrying value exceeds its recoverable amount, it must be written down to the recoverable amount. The write-down should be recognised in the profit and loss account as an impairment expense. The recoverable amount of plant and equipment in most cases is net selling price. After the recognition of an impairment loss, the depreciation charge for the asset should be adjusted in future periods to allocate the asset's carrying amount, on a straight-line basis, over its remaining useful life.

(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.

1 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)

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. 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

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.

1 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)

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.

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. 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.

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.

The Emergency Measures Agreements (EMAs) effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The Company is paid a management fee to continue running a revised National Rail timetable. The Emergency Recovery Measures Agreement (ERMA) replaced the EMA from 21 September 2020 and under the ERMA all revenue and cost risk transferred to the government until 31 May 2021.

Net EMA / 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 accounts for the year ended 31 March 2021 have been prepared on the basis that the EMA has been replaced with the ERMA that continues until 31 March 2021. Turnover received under the EMA /ERMA for the year ended March 2021 £330.8m was (2020: £18.1m).

1 Principal accounting policies (continued)

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

(iii) Key sources of estimation uncertainty (continued)

Onerous contract provision

As detailed in note 21, the Company had an onerous contract provision to cover future unavoidable losses under the original Franchise Agreement and has been measured based on the contractual terms in existence at that date. The termination of the Franchise Agreement on 30 May 2021 and Termination Sum of £nil agreed with the DfT removes the expectation of future unavoidable losses under the contract and this has resulted in the subsequent release of the onerous contract provision of £52.2m.

2 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 and other sundry income.

Turnover can be analysed as follows:

	2021	2020
	£000	£000
Passenger receipts	45,465	257,378
Traincrew services	1,087	2,910
Revenue subsidy	325,036	18,132
Other revenue	6,234	11,828
Exceptional income	59,883	-
	<u>437,705</u>	<u>290,248</u>

Exceptional Income

Exceptional income of £59.9m was recognised in the profit and loss account (2020: £nil). This primarily relates to the net release of the residual onerous contract provision during the year of £52.2m and net credits from settlement agreements of £7.7m. Further details are disclosed in the Provision for liabilities and Post balance sheet event notes (notes 15 and 21).

3 Operating costs

	2021	2020
	£000	(restated*) £000
Station & track access and facilities	66,024	67,525
Rolling stock lease costs*	56,530	45,334
Staff costs (note 4)*	88,716	87,648
External charges*	145,756	42,135
Intangible asset amortisation (note 10)	214	212
Tangible asset depreciation (note 11)	7,515	5,713
Net franchise payments	-	41,681
	<u>364,755</u>	<u>290,248</u>

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. Prior year has been restated to reflect this classification.

Staff costs for prior year have also been restated to exclude agency staff related costs (see note 4).

4 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:

	2021 Actuals	2020 Actuals	2021 FTE	2020 FTE
Traincrew including traincrew management	642	588	636	583
Customer service	589	550	575	537
Administration	204	183	190	170
	<u>1,435</u>	<u>1,321</u>	<u>1,401</u>	<u>1,290</u>

The aggregate payroll costs of these persons were as follows:

	2021 £000	2020 (restated*) £000
Wages and salaries*	75,545	75,068
Social security costs	8,472	8,175
Other pension costs	4,699	4,405
	<u>88,716</u>	<u>87,648</u>

Staff costs for prior year have also been restated to exclude agency staff related costs.

5 Directors' remuneration

Certain directors (Kevin Gardner, 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 accounts.

These directors have not performed any qualifying services on behalf of the Company during the current and prior year. Details of retirement benefits accruing to the directors under the group defined benefit schemes are detailed in the financial statements of FirstGroup plc.

The remuneration of the directors paid by the Company during the year was as follows:

	2021 £000	2020 £000
Aggregate emoluments (excluding pension contributions)	549	553
Compensation for loss of office	-	188
Contributions to defined benefit schemes	35	34

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.

The emoluments of the highest paid director amounted to:

	2021 £000	2020 £000
Aggregate emoluments	229	392
Compensation for loss of office	-	188
<i>Defined benefit scheme</i>		
Accrued pension at year end	59	50
Accrued lump sum at end of year	49	35

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

6 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.

6 Share based payments (continued)

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 £327,000 (2020: £333,000) relating to equity-settled share-based payment transactions.

	2021 £000	2020 £000
Total expense recognised in the profit and loss account	327	333
Contribution paid to First Rail Holdings Limited (parent Company)	(327)	(333)
	<u> </u>	<u> </u>
Credited to shareholder funds	-	-
	<u> </u>	<u> </u>

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.

7 Net interest receivable/(payable)

	2021 £'000	2020 £'000
<i>Interest payable and similar charges</i>		
Unwind of discount on amounts owed to group undertakings	-	(464)
Unwind of discount on contract provision	(1,084)	(1,083)
Interest payable on parent Company loans (note 14)	-	(2,354)
Interest payable and similar charges	<u>(1,084)</u>	<u>(3,901)</u>
<i>Interest receivable and similar income</i>		
Bank interest receivable	70	370
Interest received on inter-company	<u>253</u>	<u>-</u>
Interest receivable and similar income	<u>323</u>	<u>370</u>
Net interest receivable/(payable)	<u>(761)</u>	<u>(3,531)</u>

8	Loss before taxation	2021	2020
		£000	(restated*) £000
	Loss before taxation is stated after charging:		
	Auditors' remuneration		
	- Audit fee for the audit of the annual accounts	113	50
	- Non-audit fee for other services	-	8
	Depreciation on tangible owned assets	7,515	5,713
	Intangible asset amortisation	214	212
	Rentals payable under operating leases		
	- Property*	271	277
	- other operating leases*	<u>122,169</u>	<u>101,491</u>

The plant and machinery category in the prior year accounts has been replaced with property. The remaining are now disclosed in the other operating lease line.

Other operating lease costs also include costs under contracts with Network Rail and rolling stocks. Prior year costs of £51.1m has been restated to £101.5m to reflect this new classification.

9	Tax	2021	2020
		£000	£000
	Current taxation		
	- UK corporation tax charge for the year	5,447	-
	- Group Relief receivable	(317)	(2,306)
	- Adjustment in respect of prior years	<u>-</u>	<u>(1,566)</u>
	Total current taxation	<u>5,130</u>	<u>(3,872)</u>
	Deferred taxation		
	- Origination and reversal of timing differences	8,583	1,700
	- Impact of deferred tax arising from rate change	-	(1,666)
	- Writing down of previously recognised tax losses	-	5,421
	- Adjustment in respect of prior years	<u>(313)</u>	<u>1,471</u>
	Total deferred taxation	<u>8,270</u>	<u>6,926</u>
	Total tax charge/(credit) on profit	<u>13,400</u>	<u>3,054</u>

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2020: 19%).

9 Tax (continued)

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:

	2021 £'000	2020 £'000
Profit/(Loss) multiplied by standard rate of corporation tax in the United Kingdom of 19% (2020: 19%)	13,716	(671)
Expenses not deductible for tax purposes	(3)	65
Prior year adjustments	(313)	(95)
Writing down of previously recognised tax losses	-	5,421
Impact of deferred tax arising from rate change	-	(1,666)
Total tax charge	<u>13,400</u>	<u>3,054</u>

Deferred tax assets for brought forward losses, which had previously been recognised, have now been written down as it is now not probable that there will be future profits to offset these losses as a result of the current year impact of the Coronavirus Pandemic on the near-term forecasts of FirstGroup plc.

The UK Government enacted legislation to maintain the main rate of UK corporation tax at 19% from 1 April 2021 and deferred tax is now calculated at 19%. Under the enacted legislation at 31 March 2020 the rate was set to reduce to 17% from 31 March 2021 resulting in deferred tax being calculated at 17% in the prior year.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, as the deferred tax assets recognised are expected to reverse before 2023 it is likely that there would be no change to the tax expense for the period nor the deferred tax asset if it had been substantively enacted.

10 Intangible assets

	Computer software
Cost	
At 1 April 2020	2,731
Intangible transfer	(1,653)
At 31 March 2021	<u>1,078</u>
Accumulated amortisation	
At 1 April 2020	505
Charge for year	214
At 31 March 2021	<u>719</u>
Net book value	
At 31 March 2020	<u>2,226</u>
At 31 March 2021	<u>359</u>

Computer software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation. Costs include software licenses, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software.

Included in computer software is £1.670m (2020: £1.776m) of assets in course of construction, which are not amortised until they are brought into use.

11 Tangible assets

	Plant and equipment £000
Cost	
At 1 April 2020	35,772
Additions	1,238
At 31 March 2021	<u>37,010</u>
Accumulated depreciation	
At 1 April 2020	10,909
Charge for year	7,515
At 31 March 2021	<u>18,424</u>
Net book value	
At 31 March 2020	<u>24,863</u>
At 31 March 2021	<u>18,586</u>

Included in plant and equipment is £23k (2020: £23k) of assets under construction, which are not depreciated until they are brought into use. This primarily relates to depot improvement works.

12 Stock

	2021 £000	2020 £000
Fuel	<u>147</u>	<u>114</u>

13 Debtors

	2021 £000	2020 £000
Amounts due within one year		
Trade debtors (including amounts recoverable from Network Rail)	9,520	14,339
Amounts recoverable on contracts	24,237	46,248
EMA funding	4,784	18,432
Amounts due from group undertakings	206	870
Other debtors (primarily VAT)	3,026	4,872
Other prepayments and accrued income	1,478	7,892
Deferred tax asset (note 16)	434	8,704
Group tax relief	7,594	7,279
	<u>51,279</u>	<u>108,636</u>

Amounts due from group undertakings relate primarily to charges due from Hull Trains Company Limited and are due within 28 days of invoice date.

As part of the Settlement Agreements which were initiated and agreed with the DfT post 31 March 2021, the amounts recoverable on contracts of £46.2m were settled at £24.2m. This has been treated as an adjusting post balance sheet event as detailed in note 21.

14 Creditors

	2021 £000	2020 £000
Amounts falling due within one year		
Trade creditors	8,657	27,589
Amounts owed to group undertakings	4,611	6,413
Other tax and social security	2,104	4,968
Other creditors	1,897	6,173
Accruals	75,642	90,096
Deferred income	26,413	46,668
Corporation tax	5,447	-
	<u>124,771</u>	<u>181,907</u>
Amounts falling due after more than one year		
Amounts owed to parent undertakings	45,913	46,166
Deferred capital income	4,504	12,843
	<u>50,417</u>	<u>59,009</u>
	<u>175,188</u>	<u>240,916</u>

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.

14 Creditors (continued)

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.

15 Provisions for liabilities

	Other Obligations £000	Contract Provision £000	Total £000
At 1 April 2020	(680)	(52,155)	(52,835)
Charged to the profit and loss account	(2,279)	-	(2,279)
Unused amounts reversed to the profit and loss account	-	53,234	53,234
Unwind of discount on contract provision	-	(1,079)	(1,079)
At 31 March 2021	<u>(2,959)</u>	<u>-</u>	<u>(2,959)</u>
Amounts falling due within one year		2021 £000	2020 £000
Other obligations		<u>(555)</u>	<u>(680)</u>
At 31 March 2021		<u>(555)</u>	<u>(680)</u>
Amounts falling due after more than one year		2021 £000	2020 £000
Other obligations		(2,404)	-
Unwind of discount factor on contract provision		-	(1,079)
Contract provision		<u>-</u>	<u>(51,076)</u>
At 31 March 2021		<u>(2,404)</u>	<u>(52,155)</u>
Total Provision for liabilities		<u>(2,959)</u>	<u>(52,835)</u>

At 31 March 2021, other obligations includes the dilapidation provisions were £2.4m (2020: £0.68m). This is made up of the liabilities for the class 185, 397, 803, 68 and Mrk5 train fleets as well as remaining liabilities at office and traincrew locations around the network. The remainder £0.6m 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.

The Company has concluded that the termination of the ERMA-amended Franchise Agreement and the Settlement Agreements constitute adjusting post balance sheet events and has therefore reflected the financial impact of these settlement agreements in the financial statements for year ended 31 March 2021. Further details are disclosed in note 21.

16 Deferred taxation

	£000
Asset at 1 April 2020	8,704
Charged to Profit and Loss Account	(8,270)
Asset at 31 March 2021	<u>434</u>

The deferred tax asset comprises:

	2021 £000	2020 £000
Capital allowances less than depreciation	310	110
Other timing differences	124	101
Losses	-	8,493
Deferred tax asset	<u>434</u>	<u>8,704</u>

£27.0m of losses have not been recognised for Deferred Tax, as it is not probable that there will be sufficient future profits to offset these losses as a result of the current year impact of the Coronavirus Pandemic on the near-term forecasts of FirstGroup plc.

17 Called up share capital

	2021 £	2020 £
Allotted, called up and fully paid		
1 ordinary share of £1	<u>1</u>	<u>1</u>

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

18 Commitments

Capital commitments

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

	2021 £'000	2020 £'000
Contracted for but not provided	<u>258</u>	<u>2,029</u>

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

18 Commitments (continued)

Operating leases

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

	2021	2020 (restated)
	£000	£000
Operating leases which expire:		
Within one year	120,594	118,600
Between one and five years	119,626	237,409
	<u>240,220</u>	<u>356,009</u>

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 £61.6m (2020: £62.4m) and property lease of £0.3m (2020: £0.3m). The remaining commitments for both 2021 and 2020 are primarily for the lease of rolling stock.

Prior year numbers have been restated to include obligations under contracts with Network Rail and Siemens and to only include rolling stock lease payments that are non-cancellable. This resulted in a net increase of £62.4m for less than one year and net increase of £38.7m for between one and five years.

19 Contingent liabilities

FirstGroup plc has provided the Company with performance bonds of £17.1m (2020: £17.1m) backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the Company.

FirstGroup plc has provided parent Company support in the form of a subordinated loan facility totalling £168.8m (2020: £168.8m), which is % backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the Company, as set out in the Funding Deed. As stated in note 14, £45.9m of this loan facility had been drawn to date at 31 March 2021 (2020: £46.1m).

An amendment to the Funding Deed in August 2021 reduced the parent Company support from £168.8m to £63.7m.

20 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 2021 was £0.1m (2020: £nil).

Defined benefit schemes

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme (RPS).

20 Pension liability (continued)

Railways Pension Scheme - Transpennine Express Section (continued)

Defined benefit schemes

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 £4.7m (2020: £4.4m).

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 future service is calculated, and the funding position established. These accounts use member data obtained by the scheme actuary for the 2019 valuation (which has not been finalised), updated to March 2021; at this date the market value of the scheme's assets totalled £211.3m, £76.8m for the former First North Western section and £134.5m for the former Arriva Trains Northern section. The actuarial value of these assets was sufficient to cover 57% (2020: 59%) 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). 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 2021	Category 60 2020	Category 62 2021	Category 62 2020	Category 60 2021	Category 60 2020	Category 62 2021	Category 62 2020
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.

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.

20 Pension liability (continued)

Defined benefit schemes (continued)

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 4.23% per annum and the rate of inflation will be (RPI/CPI) 3.2%/4.2% 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.

Financial assumptions

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

	2021 £000	2020 £000
Rate of increase in salaries	3.05%	2.75%
Rate of increase of pensions in payment	2.50%	1.80%
Rate of increase of pensions in deferment	2.55%	1.80%
Discount rate	2.05%	2.40%
Inflation assumption – RPI	3.05%	2.50%
Inflation assumption – CPI	2.55%	1.80%

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, 20.4 years (2020: 21.1 years); future pensioners at 65 aged (45 now), 21.9 years (2020: 22.3 years).

Asset values

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

	2021 £000	2020 £000
Real Estate	600	1,600
Private Equity	14,700	14,100
Cash and cash equivalents	2,200	1,600
Other return seeking assets ¹	193,827	154,400
	<u>211,327</u>	<u>171,700</u>

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.

20 Pension liability (continued)

Defined benefit schemes (continued)

Asset values (continued)

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

Reconciliation of movements

	Assets	Liabilities	Shared cost	Franchise impact	Net
Balance sheet at 1 April 2019	166,070	(306,597)	56,211	84,316	-
Income Statement					
Operating					
- Service cost	-	(19,334)	7,734	7,604	(3,996)
- Administration cost	-	(682)	273	-	(409)
- Past service gain including curtailments	-	-	-	-	-
Total Operating cost	-	(20,016)	8,007	7,604	(4,405)
Financing	4,099	(7,114)	1,206	1,809	-
Total Income Statement	4,099	(27,130)	9,213	9,413	(4,405)
Amounts from / (paid to) scheme					
Employer contributions	4,405	-	(1,762)	1,762	4,405
BRASS matching contributions	-	-	-	-	-
Employee contributions	2,937	-	(1,175)	(1,762)	-
Benefits paid	(3,446)	3,446	-	-	-
Total	3,896	3,446	(2,937)	-	4,405
Expected closing position	174,065	(330,281)	62,487	93,729	-
Gains / (losses)					
Change in financial assumptions	-	37,279	(14,912)	(22,367)	-
Change in demographic assumptions	-	-	-	-	-
Return on assets in excess of discount rate	(2,365)	-	945	1,420	-
Experience	-	1,110	(444)	(666)	-
Total	(2,365)	38,389	(14,411)	(21,613)	-
Balance sheet at 31 March 2020	171,700	(291,892)	48,076	72,116	-

20 Pension liability (continued)

Defined benefit schemes (continued)

	Assets	Liabilities	Shared cost	Franchise impact	Net
Balance sheet at 1 April 2020	171,700	(291,892)	48,076	72,116	-
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	(6,724)	1,032	1,548	-
Total Income Statement	4,144	(25,911)	8,707	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	(5,819)	5,819	-	-	-
Total	1,773	5,819	(3,037)	126	4,681
Expected closing position	177,617	(311,984)	53,746	80,621	-
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	(370,537)	63,683	95,527	-

21 Post balance sheet events

The company entered into two Settlement Agreements with DfT in May 2021 that finalised the Franchise premium adjustments relating to the period before the start of the Emergency Measures Agreement on 1 March 2020.

The Emergency Measures Agreement (EMA), effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The EMA was replaced with an Emergency Recovery Measures Agreement (ERMA) that expired at 01.59 on 30 May 2021. At 02.00 on 30 May 2021 the National Rail Contract (NRC) with the DfT commenced.

Under the NRC the government takes revenue risk and a level of cost and contingent capital risk that is capped (subject to contractual changes) and pays a fixed management fee with the potential for an additional performance fee. This provides the company ongoing protection from the continuing loss of revenues resulting from Coronavirus.

The termination of the Franchise Agreement on 30 May 2021 and Termination Sum of £nil agreed with the DfT removes the expectation of future unavoidable losses under the contract and this has resulted in the subsequent net release of the onerous contract provision of £52.2m.

The company has also agreed amounts recoverable on contracts (as detailed in note 13) and franchise related accruals (as detailed in note 14) as part of the Settlement Agreements with the DfT in May 2021, the net impact of which was a credit to the profit and loss account of £7.7m.

The company has concluded that the termination of the ERMA-amended Franchise Agreement and the Settlement Agreements constitute adjusting post balance sheet events and has therefore reflected the financial impact of these Settlement Agreements in the financial statements for year ended 31 March 2021.

22 Ultimate parent Company

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

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

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