FIRST TRANSPENNINE EXPRESS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

Company Registered Number: 09111801

Contents

STRATEGIC REPORT
For the year ended 31 March 2016

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006. The Company has adopted FRS 102 in the year, under which it has taken advantage of a number of reduced disclosures. Further information is available within the accounting policies section.

Principal activities

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

Business review, future outlook, and going concern

The directors are satisfied with the performance of the company during the year.

On 9 December 2015, the Department for Transport ("DfT") announced that the company was awarded the Transpennine Express franchise starting from 1 April 2016 for a minimum term of seven years. Certain rolling stock and depot contracts were entered into prior to 1 April 2016.

Turnover was £nil (2015: £nil) and operating loss was £1,107,000 (2015: £nil). The operating loss reflected a restructuring, which started prior to the beginning of operations. No other key performance indicators are presented since the company started operations from 1 April 2016.

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

During the new franchise more than £500m will be invested to transform rail services across the North of England and Scotland. There will be a large increase in the number of carriages compared with today, providing 13m more seats, and the customer experience will be enhanced over time with almost three quarters of the fleet being new. Introducing state-of-the-art intercity trains will mean faster and more reliable journeys with more seats and luggage space. The remaining vehicles will be extensively refurbished and stations will also benefit from £18m of investment in customer facilities.

The directors have considered the going concern assumption given the current economic climate and have formed the conclusion that there is a reasonable expectation that the company will continue to be a going concern in the foreseeable future. The directors have considered the company forecasts in forming this judgment. A Letter of Support has been provided by FirstGroup plc to state that it will provide the company with sufficient working capital to allow it to continue in business for at least twelve months from date of signing of the annual accounts with reference to the net current liabilities position of £0.5m on the balance sheet.

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

STRATEGIC REPORT
For the year ended 31 March 2016

Principal risks and uncertainties

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

Rail franchise agreements
The company is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties including the potential termination of the rail franchise agreement. This would result in the company losing the right to continue operating the affected operations and consequently, the related revenues or cash flows. The company may also lose some or all of the amounts set aside as security for its performance bond and the season ticket bond. Compliance with franchise conditions are closely managed and monitored on a four-weekly basis by senior management and procedures are in place to minimise the risk of non-compliance.

Information Technology
The company relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information (including credit card and personal data). Process failure, security breach or other operational difficulties may also lead to revenue loss. To mitigate this risk the company has extensive security controls in place which in conjunction with policy and procedures are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

Legislation and regulation
The business is subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulations or other laws could adversely impact the results of our operations. To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc. regularly lobbies both government and transport bodies.

Customer Service
The company's revenues are at risk if it does not continue to provide the level of service expected by customers. On-going engagement with customers and community stakeholders takes place across our network, through '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.

STRATEGIC REPORT
For the year ended 31 March 2016

Principal risks and uncertainties (continued)

Employee costs and relations
Labour costs represent a significant component of the company's operating costs. Labour shortages, or low unemployment rates, could hinder the company's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. To mitigate this risk, the company seeks to structure its recruitment and retain the right people. Our employees are key to service delivery and therefore it is important that good employee relations are maintained. Our working practices include building communication and engagement with trade unions and the wider workforce. This is supported by an Employee Director, who is voted for by the employees to represent them.

Fuel costs
Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to arise because of national strikes, world supply difficulties, disruption of refining capacity or oil imports, the resultant higher fuel prices and disruption to services could adversely impact the company's operating results. To mitigate the risks of rising fuel costs the company works with FirstGroup plc who regularly enter into forward contracts to buy fuel at fixed prices. In addition, the company seeks to limit the impact of unexpected fuel price rises through efficiency and pricing measures.

Severe weather and natural disasters
Across our network we are experiencing greater and more frequent adverse weather disruption impacting our service levels. We have severe weather action plans and procedures to manage the impact on our operations.

Terrorism
Terrorist acts and the public's concerns about potential attacks could adversely affect demand for our services. More particularly if we were to be perceived as not taking all reasonable precautions to guard against potential terrorist acts this could adversely affect our reputation with the public. The company has a Head of Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of our employees so that they can respond effectively to any perceived threat or incident.

Economy
The level of economic activity affects the number of train journeys taken by passengers in the UK. Any changes in economic activity may impact upon the passenger numbers and hence our operations.

STRATEGIC REPORT
For the year ended 31 March 2016

Financial risk management objectives and policies

The company's principal financial assets are bank balances and trade debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant concentration of credit risk, with exposure spread over a large number of customers. The credit risk on liquid funds is limited because the counterparties are banks. Although certain risks, for example, fuel price, are hedged on a group basis, the company does not enter directly into any derivative financial instruments.

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

David C Gausby
Director

Date: 22 December 2016

Ground Floor, 50 Eastbourne Terrace
London W2 6LG

DIRECTORS' REPORT
For the year ended 31 March 2016

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2016.

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 10.

During the year the company paid no dividends.

Directors

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

Vernon I Barker	(resigned 17 April 2015)
Clive Burrows	(appointed 21 April 2016)
Hugh P Clancy	
Elizabeth A Collins	(appointed 8 February 2016)
David C Gausby	
Leo D Goodwin	(appointed 8 January 2016)
Darren C Higgins	(appointed 8 February 2016)
Andrew J McNeil	(appointed 1 April 2016)
Stephen Montgomery	(appointed 28 September 2015)

Directors' and officers' liability insurance

Directors' and officers' liability insurance is taken out by FirstGroup plc, the company's ultimate parent undertaking, for the benefit of the directors and officers of the company.

Employee involvement

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

Disabled persons

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement, which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

DIRECTORS' REPORT
For the year ended 31 March 2016

Approval of reduced disclosures

The company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12. The company's shareholder has been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received. The company also intends to take advantage of these exemptions in the financial statements to be issued in the following year.

Audit information

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

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

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

Auditor

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

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

David C Gausby
Director

Ground Floor
50 Eastbourne Terrace
London
W2 6LG

Date: 22 December 2016

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

We have audited the financial statements of First Transpennine Express Limited for the year ended 31 March 2016 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity, and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland."

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

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

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

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Jennifer Chase (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Date: 22 December 2016

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Operating costs	2	(1,107)	-
Operating loss		(1,107)	-
Loss on ordinary activities before taxation		(1,107)	-
Tax credit on loss on ordinary activities	5	221	-
Loss for the financial year		(886)	-

All activities relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	2016 £000	2015 £000
Loss for the financial year	(886)	-
Other comprehensive income	-	-
Total comprehensive income for the year	(886)	-

BALANCE SHEET
At 31 March 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Current assets					
Debtors	6	221		-	
Cash at bank and in hand		20,000		-	
		20,221		-	
Creditors: amounts falling due within one year	7	(1,107)		-	
Net current assets			19,114		-
Total assets less current liabilities			19,114		-
Creditors: amounts falling due after more than one year	7		(19,572)		-
Net liabilities			(458)		-
Capital and reserves					
Called up share capital	8		-		-
Profit and loss account			(458)		-
Shareholder's funds			(458)		-

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

These financial statements for First Transpennine Express Limited (Company Number: 09111801) were approved by the Board of Directors on 22 December 2016 and were signed on its behalf by:

David C Gausby
Director

STATEMENT OF CHANGES IN EQUITY
At 31 March 2016

	Called up share capital £000	Profit and loss account £000	Total £000
Balance at 2 July 2014 (date of incorporation)	-	-	-
Total comprehensive income for the financial year	-	-	-
Balance at 31 March 2015	-	-	-
Total comprehensive income for the financial year	-	(886)	(886)
Capital contribution arising from interest-free loan	-	428	428
Balance at 31 March 2016	-	**(458)**	**(458)**

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 company incorporated in the United Kingdom under the Companies Act. The registered office address is 50 Eastbourne Terrace, Paddington, London W2 6LG. The nature of the company's operations and its principal activities are set out in the Strategic report on page 1. The functional currency of First Transpennine Express Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention and on a going concern basis as described in the going concern statement in the Strategic report on page 1 and in accordance with Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council.

The company meets the definition of a qualifying entity under FRS 102. Accordingly, in the year ended 31 March 2016 the company has changed its accounting framework from pre-2015 UK GAAP to FRS 102. This is the first year that the company has presented its financial statements under FRS 102. This transition is not considered to have had a material effect on the financial statements and as such the company has not presented a restated balance sheet or a reconciliation of equity on transition to FRS 102.

As permitted by FRS 102 the company has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to presentation of a cash-flow statement, financial instruments and intra group transactions.

(c) Taxation

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

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

1 Principal accounting policies (continued)

(d) Financial instruments

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

(e) Financial assets and liabilities

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

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

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.

Restructuring costs

Judgements are made about the carrying value of liabilities arising from the company's franchise and long term contracts. Regular forecasts are compiled on the outcome of these types of accounting judgements and contracts, which requires assessments and judgement relating to the expected level of costs included.

2. Operating costs

	2016 £000	2015 £000
Restructuring costs	1,107	-
	1,107	-

Prior to year end the company started a restructuring plan to reduce the number of head office employees transferred from First/Keolis Transpennine Limited on 1 April 2016.

3 Employee numbers and costs

The company employed no employees during the year other than the directors.

4 Directors' remuneration

The directors received no remuneration during the year.

5 Tax on loss on ordinary activities

	2016 £000	2015 £000
Current taxation		
- UK corporation tax credit for the year	(221)	-
- Adjustment in respect of prior years	-	-
Total current taxation	(221)	-
Total tax credit on loss on ordinary activities	(221)	-

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 20% (2015: 21%).

During the period the UK Government enacted legislation to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017, plus a further reduction to 18% from 1 April 2020. Subsequent to the year end the UK Government announced a further reduction to the standard rate of corporation tax from 1 April 2020 to 17%.

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:

	2016 £000	2015 £000
Loss on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 20% (2015:21%)	(221)	-
Total tax credit on loss on ordinary activities	(221)	-

6 Debtors

	2016 £000	2015 £000
Amounts falling due within one year		
Corporation tax	221	-
	221	-

7 Creditors

	2016 £000	2015 £000
Amounts falling due within one year		
Other creditors	1,107	-
Amounts falling due after more than one year		
Amounts owed to group undertakings	19,572	-

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

8 Called up share capital

	2016	2015
	£	£
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

9 Commitments

Capital expenditure

The company has no capital commitments at 31 March 2016 (2015: £nil).

Operating leases

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

	2016		2015	
	Land and buildings	Other	Land and buildings	Other
Payments falling due:	£000	£000	£000	£000
Less than one year	5,934	27,493	-	-
Between one and five years	23,962	107,102	-	-
Over five years	12,127	57,017	-	-
	42,023	191,612	-	-

10 Contingent liabilities

The company had no contingent liabilities at the reporting date (2015: £nil).

11 Post balance sheet event

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

12 Ultimate and immediate parent company and controlling party

The immediate parent company is First Rail Holdings Limited which is registered in England and Wales. The ultimate parent company is FirstGroup plc. which is incorporated in Great Britain and registered in Scotland.

The ultimate controlling party is FirstGroup plc. The largest and smallest group in which these financial statements are consolidated is FirstGroup plc. Copies of the financial statements of FirstGroup plc can be obtained from the London office of this company at Ground Floor, 50 Eastbourne Terrace, London W2 6LG.