

**FIRST TRANSPENNINE EXPRESS LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2019**



**Company Registered  
Number: 09111801**

# **FIRST TRANSPENNINE EXPRESS LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

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<b>Contents</b>	<b>Pages</b>
Strategic report	1 - 6
Directors' report	7 - 8
Directors' responsibilities statement	9
Independent auditor's report	10 – 12
Profit and loss account	13
Statement of comprehensive income	13
Balance sheet	14
Statement of changes in equity	15
Notes to the financial statements	16 - 36

**STRATEGIC REPORT****For the year ended 31 March 2019**

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

**Principal activities**

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

**Business review, future outlook, and going concern**

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

In the year, our turnover increased to £268.6m (2018: £258.6m). The company has delivered like-for-like passenger revenue growth of 8% (2018: 10%). This represents passenger revenue growth normalised for one offs such as engineering and special events as well as any new initiatives that are materially different from the prior year. Greater growth is expected as we complete the introduction into service of new fleet in the coming period. Growth rates across the industry continue to be affected by UK macroeconomic uncertainty and changing working practices, while our networks have experienced challenges mainly from the effect of rail infrastructure upgrade works.

The passenger revenue growth, though substantial, is lower than our projections at the time the franchise was awarded. The company was to some extent affected by the national rail industry decision to defer the December 2017 and May 2018 timetable changes, a significant and unforeseen change in circumstances which meant we could not deliver some additional services and other passenger benefits as originally scheduled under the franchises. Certain commercial and contractual variations have been discussed with the Department for Transport (DfT) and recognised in part during the period, but we remain engaged in discussions with the DfT in relation to their effects over the longer term.

The operating loss was £98k (2018: loss of £113.5m). The previous year operating loss includes the charge during last year of £106.3m in respect of an onerous contract provision relating to the forecast losses to be made to the end of the franchise. The company did utilise £0.5m of the contract provision for losses during the year, and we continue to expect the provision to be used in full over the franchise life, due to the reprofiling of the timetable changes.

The TransPennine Express franchise is being transformed into a true intercity network for the North, with capacity due to be increased by more than 80%. We have completed the upgrade to the class 185s fleet, including the installation of modern comfortable seating, free Wi-fi, an on-board entertainment system and at seat plug-sockets. We will be introducing 220 new carriages in the coming period, comprising a mix of intercity trains: Class 802 from Hitachi, Class 397 and Mark 5As from CAF.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2019**

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By next year, 90% of our customers are due to be travelling on a train less than five years old. Passenger benefits from these new trains include more seats and space, Wi-Fi and onboard entertainment options. We will also introduce more convenient ticketing options including smartcards, barcodes and auto-renewing season tickets. Easier, more generous and more flexible delay compensation will also be introduced in the coming year.

We have a strong track record in close partnership working with Network Rail, the DfT and all industry partners to deliver infrastructure upgrade projects whilst minimising disruption for passengers.

Our franchise covers a period during which there is significant change (timetable change, major infrastructure work, electrification and resignalling, and introduction of new trains). These changes require careful planning, management and negotiation with industry partners, in particular where delays can impact the delivery of franchise assumptions. Failure to manage these risks adequately could result in financial and reputational impacts to the company.

The directors have considered the going concern assumption given the current economic climate and have formed the conclusion that there is a reasonable expectation that the company will continue to be a going concern in the foreseeable future. The directors have considered the company forecasts and respective franchise commitments in forming this judgment.

In light of the net current liability position of £21.3m (2018: £16.3m), and the net liability position of £95.4m (2018: £94.4m), the parent company, FirstGroup PLC, has provided the directors of the company with a letter confirming that it will make available such funds as may be required to meet its obligations for a period of at least 12 months from the date of signing these financial statements. The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support.

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

**Key Performance Indicators**

The key non-financial performance indicators are as follows:

Train operating performance was 12.69% below targeted levels in 2018/19 with our industry standard public performance measure (PPM) moving average score standing at 76.31% (2018: 86.33%). PPM is determined by the number of trains which arrive at destination within the individual train operating company benchmark target. This figure was impacted by Network Rail engineering works across our network and the introduction of the May 2018 timetable change. However, positive signs in the last quarter of the year indicate that the December 2018 timetable change has mitigated many of the challenges associated with the May 2018 timetable change.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2019**

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**Key Performance Indicators (continued)**

In the latest independent Transport Focus National Rail Passenger Spring Survey, the company saw a customer satisfaction year-on-year fall to 73% (2018: 86%) against a target of 85% (2018: 85%). The result was heavily influenced by the performance issues experienced in 2018. The introduction of the new fleets and the roll out of new ticketing purchase channels will make the transformation of the TPE network a reality for our customers.

The company's average headcount in the year increased to 1,147 (2018: 1,103), an increase of 3.98%. This increase is mainly due to the recruitment of additional drivers and conductors to facilitate the December 2018 timetable.

The company measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2019 was 53% (2018: 60%) against a target of 62%. This was a disappointing result, but reflective of the challenges faced by the company this year

**Principal risks and uncertainties**

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

**Rail franchise agreements**

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

**Information Technology**

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

**Legislation and regulation**

The business is subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulations or other laws could adversely impact the results of our operations.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2019**

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**Legislation and regulation (continued)**

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

**Customer service**

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

**Data security**

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

**Pension scheme funding**

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

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 are ongoing. The possibility remains of changes to contributions that could impact all rail operators sponsoring the industry-wide scheme.

TPR and 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, RPS and RDG objectives. There has been continuing engagement between the key parties during the year, and efforts to develop a framework to take forward a formal consultation are ongoing.

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

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2019**

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**Pension scheme funding (continued)**

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

**Compliance, litigation and claims, health and safety**

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

**Employee costs and relations**

Labour costs represent a significant component of the company's operating costs. Labour shortages, or low unemployment rates, could hinder the company's ability to recruit and retain qualified employees leading to a higher than expected increase in the cost of recruitment, training and other staff costs. Industrial action could adversely impact customer service and have a financial impact on the company's operations.

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

Our working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular leadership conferences, employee surveys and the presence of an Employee Director (voted for by the employees to represent them) on the company's board.

**Fuel costs**

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

**Severe weather and natural disasters**

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

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2019**

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**Terrorism**

The threat from terrorism is enduring and continues to exist. Public transport continues to be regarded as an attractive and viable target. Across our business, we take all reasonable steps to help guard against such activity on the services we operate. An attack, or threat of attack, could lead to reduced public confidence in public transportation, and/or specifically in our security and safety record and could reduce demand for our service, increase costs and security requirements and cause operational disruption. The company has a Head of Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of our employees so that they can respond effectively to any perceived threat or incident.

**Economic conditions including Brexit implications**

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

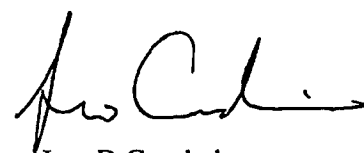
**Financial risk management objectives and policies**

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

Approved by the Board of Directors

And signed on behalf of the Board

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



Leo D Goodwin  
Director

18 July 2019



**DIRECTORS' REPORT****For the year ended 31 March 2019**

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The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2019.

**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.

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

**Results and dividends**

The results for the year are given in the profit and loss account on page 13.

No dividends were declared during, or after the year (2018: £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

Leo D Goodwin

Elizabeth A Collins

Darren C Higgins

Kevin Gardner

Scott I Jarvis

(resigned 04 October 2018)

Stephen Montgomery

**Employee consultation**

Communication with employees is undertaken mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the company council committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests. We also hold regular focus groups on pertinent issues. Our annual employee survey allows us to receive direct feedback from the employees in terms of their engagement with the business. This then leads into our action plans to build on our strengths and to address any weaknesses. Our Reward & Recognition schemes also seek to increase employee engagement.

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

**DIRECTORS' REPORT (CONTINUED)**

**For the year ended 31 March 2019**

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**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' 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.

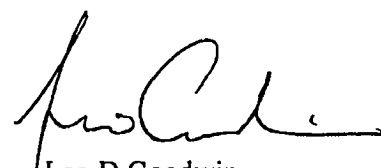
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**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

4<sup>th</sup> Floor  
Capital House  
25 Chapel Street  
London  
NW1 5DH

  
Leo D Goodwin  
Director  
18 July 2019

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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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**

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**Report on the audit of the financial statements**

**Opinion**

In our opinion the financial statements of First TransPennine Express Limited ('the company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

**Basis for opinion**

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

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

**Conclusions relating to going concern**

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

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

We have nothing to report in respect of these matters.

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

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**Other information**

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

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

We have nothing to report in respect of these matters.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

**Matters on which we are required to report by exception**

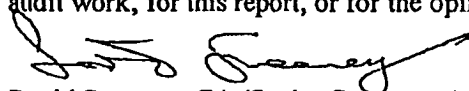
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

**Use of our report**

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



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

18 July 2019

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2019**

	Note	2019 £000	2018 £000
Turnover	2	268,616	258,561
Operating costs			
– General		(268,532)	(265,604)
– Intangible asset amortisation		(182)	(111)
– Exceptional	4	-	(106,300)
<b>Total operating costs</b>	3	<u>(268,714)</u>	<u>(372,015)</u>
<b>Operating loss</b>		(98)	(113,454)
Net interest payable	8	(1,749)	(59)
<b>Loss before taxation</b>	9	(1,847)	(113,513)
Tax credit on loss	10	<u>710</u>	<u>19,376</u>
<b>Loss for the financial year</b>		<u>(1,137)</u>	<u>(94,137)</u>

All activities relate to continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 March 2019**

	Note	2019 £000	2018 £000
Loss for the financial year		(1,137)	(94,137)
Actuarial loss due to scheme assets and liabilities	21	(18,591)	(9,176)
Actuarial gain due to rail franchise adjustment	21	18,591	9,176
<b>Total other comprehensive income for the year</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive expense for the year</b>		<u>(1,137)</u>	<u>(94,137)</u>

**BALANCE SHEET**  
**At 31 March 2019**

	Note	2019 £000	2018 £000
<b>Fixed assets</b>			
Intangible assets	11	2,438	2,620
Tangible assets	12	<u>22,951</u>	<u>13,810</u>
		25,389	16,430
<b>Current assets</b>			
Stock	13	132	122
Debtors	14	103,951	60,367
Cash at bank and in hand		<u>82,654</u>	<u>60,913</u>
		186,737	121,402
<b>Creditors: amounts falling due within one year</b>	15	(177,657)	(109,897)
<b>Provisions for liabilities and charges: amounts falling due within one year</b>	16	<u>(30,380)</u>	<u>(27,780)</u>
<b>Net current liabilities</b>		<u>(21,300)</u>	<u>(16,275)</u>
<b>Total assets less current liabilities</b>		<u>4,089</u>	<u>155</u>
<b>Creditors: amounts falling due after more than one year</b>	15	(22,267)	(15,390)
<b>Provisions for liabilities and charges: amounts falling due after more than one year</b>	16	<u>(77,181)</u>	<u>(79,200)</u>
<b>Net liabilities excluding pension liability</b>		(95,359)	(94,435)
Pension liability	21	-	-
<b>Net liabilities</b>		<u>(95,359)</u>	<u>(94,435)</u>
<b>Capital and reserves</b>			
Called up share capital	18	-	-
Profit and loss account		(95,359)	(94,435)
<b>Shareholder's deficit</b>		<u>(95,359)</u>	<u>(94,435)</u>

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

The financial statements of First TransPennine Express Limited (Company Number: 09111801) were approved by the Board of Directors on 18 July 2019 and were signed on its behalf by:

Leo D Goodwin  
Director





**STATEMENT OF CHANGES IN EQUITY****At 31 March 2019**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>Balance at 1 April 2017</b>	-	(453)	(453)
Total comprehensive expense for the financial year	-	(94,137)	(94,137)
Capital contribution arising from interest on loan (note 15)	-	52	52
Share-based payments (note 7)	-	103	103
<b>Balance at 31 March 2018</b>	-	(94,435)	(94,435)
Total comprehensive expense for the financial year	-	(1,137)	(1,137)
Capital contribution arising from interest on loan (note 15)	-	115	115
Share-based payments (note 7)	-	98	98
<b>Balance at 31 March 2019</b>	-	(95,359)	(95,359)

**1 Principal accounting policies**

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

**(a) Basis of preparation and going concern**

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

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

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

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

**(b) Tangible fixed assets and depreciation**

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

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

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

Depreciation is not charged on assets under construction.

**(c) Leases**

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

**(d) Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The taxation liability is reduced wholly or in part by the surrender of losses by group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering undertaking.

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

**1 Principal accounting policies (continued)**

**(e) Turnover**

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

**(f) Intangible fixed assets and amortisation**

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

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

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

Amortisation is not charged on assets under construction.

**(g) Stocks**

Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

**(h) Pension costs**

**Company specific schemes**

The company operates a defined benefit scheme, which is held in separately administered funds:

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the income statement. Where changes in assumptions can be made without changing the Trustee agreement these are recognised as a change in assumption in other comprehensive income. The interest cost on the net pension scheme liability is shown in net interest receivable/(payable). Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

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

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

**1 Principal accounting policies (continued)**

**(h) Pension costs (continued)**

**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.

**(i) Share based payments**

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

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

**(j) Capital grants**

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

**(k) 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 income statement 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.

**(l) Financial assets and liabilities**

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

**1 Principal accounting policies (continued)**

**(m) Future ticket deferral**

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

**(n) Provisions**

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

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

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

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

**i) Critical accounting judgements**

**Defined benefits pension arrangements**

The company operates a Railways Pension Scheme (RPS). RPS is a defined benefit pension scheme 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 40% employee. The company only recognises amounts in relation to its share of costs in the profit and loss account. The RPS is partitioned into sections and the company is responsible for the funding of these sections whilst it operates the relevant 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 net pension asset or liability to reflect that portion expected to pass to the next franchisee.

**1 Principal accounting policies (continued)**

**i) Critical accounting judgements (continued)**

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 profit and loss account, 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 profit and loss account. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the profit and loss account, whilst changes in actuarial assumptions continue to be recognised through Other Comprehensive Income (OCI). The Directors consider this to be the most appropriate interpretation of FRS 102 Section 28 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.

An alternative approach would involve not limiting the measurement of the service cost through the recognition of a profit and loss account franchise adjustment, but recognising all changes in the franchise adjustment as a reimbursement right in Other Comprehensive Income (OCI). For the year ended 31 March 2019 the impact of this alternative approach would be an increase in costs of £4.7m (2018: £7.9m) in the profit and loss account and a credit to OCI of £6.2m (2018: £6.0m). In addition, the balance sheet would reflect a surplus of £14.4m (2018: £15.9m). Since the franchise contract only refers to the contribution requirements during the franchise term, and not any reimbursement rights, in the Directors' view contributions are shared with the next franchisee and therefore the treatment of the arrangement as contribution-sharing is considered the most appropriate.

The UK schemes retirement benefit obligations are 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 each scheme's characteristics. Our approach is to review these assumptions 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 Railways Pension Scheme (the Scheme) regarding the long term funding strategy of the Scheme. Whilst TPR believes that a higher level funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements. The carrying amount of the company's retirement benefit obligations at 31 March 2019 was a liability of £nil (2018: £nil). Further details are set out in notes 20 (contingent liabilities) and 21 (Pension liability).

**ii) Key sources of estimation uncertainty**

**Contract and franchise accounting**

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

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

The company has a number of contractual relationships including those with the DfT and Network Rail which given their complexity and duration can be sensitive to changes in future assumptions. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOCs have access to common infrastructure such as railway lines. Management is required to estimate the amounts receivable and also payable taking account of the information available at the time.

**Onerous contract provision**

The Company has a number of contractual commitments in respect of the franchise agreement. FRS 102 requires a provision to be made for an onerous contract where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. In order to determine the amount of any contract provision it is necessary to forecast future financial performance and then apply an appropriate discount rate to determine a net present value. The estimation of both the forecasts and the discount rate involves a significant degree of judgement. Actual results can differ from those assumed in the forecasts and there can be no absolute assurance that the assumptions used will hold true.

Whilst the provision is based upon management's current best estimate, there can be no certainty that actual results will be consistent with those forecasts. The franchise contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth. A reduction or increase of 0.5% in the cumulative annual passenger growth rate assumption would increase or decrease the onerous contract provision required by approximately £24m. The maximum unavoidable loss under the Franchise Agreement is £193.8m.

## **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 whole of 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.

Turnover can be analysed as follows:

	2019 £000	2018 £000
Passenger receipts	256,358	239,460
Traincrew services	7,550	7,995
Other revenue	4,708	11,106
	<u>268,616</u>	<u>258,561</u>

## **3 Operating costs**

	2019 £000	2018 £000
Station & track access and facilities	66,139	42,635
Staff costs (note 5)	73,435	64,645
External charges	109,007	135,085
Intangible asset amortisation (note 11)	182	111
Tangible asset depreciation (note 12)	3,046	1,607
Exceptional costs (note 4)	-	106,300
Net franchise payments	16,905	21,632
	<u>268,714</u>	<u>372,015</u>

External charges largely comprise rolling stock and fuel costs, offset by amounts recoverable on contracts (see note 14).

## **4 Exceptional costs**

No exceptional costs were charged to the profit and loss account during the year (2018: £106.3m). Last year's exceptional costs included a contract provision relating to the profitability of the franchise contract and the forecast losses arising from the company's franchise and long-term contracts.

	2019 £000	2018 £000
Contract Provision	<u>-</u>	<u>106,300</u>



**5 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:

	2019 Actuals	2018 Actuals	2019 FTE	2018 FTE
Traincrew including traincrew management	496	455	492	453
Customer service	501	482	490	471
Administration	178	189	165	179
	<u>1,175</u>	<u>1,126</u>	<u>1,147</u>	<u>1,103</u>

The aggregate payroll costs of these persons were as follows:-

	2019 £000	2018 £000
Wages and salaries	62,554	55,042
Social security costs	6,872	5,857
Pension costs (note 21)	4,009	3,746
	<u>73,435</u>	<u>64,645</u>

Pension costs include only those items included within operating costs.

**6 Directors' remuneration**

Certain directors received remuneration from FirstGroup plc, the ultimate parent company, and First Rail Holdings Limited, the immediate parent company, in the current and previous years, details of which are disclosed in their report and accounts.

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

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

	2019 £000	2018 £000
Emoluments (excluding pension contributions)	<u>750</u>	<u>589</u>
Contributions to defined benefit schemes	<u>36</u>	<u>38</u>

**6 Directors' remuneration (continued)**

The emoluments of the highest paid director amounted to:

	2019 £000	2018 £000
Aggregate emoluments	331	229
Defined benefit scheme		
Accrued pension at year end	53	49
Accrued lump sum at end of year	39	36

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

**7 Share based payments**

**Save as you earn (SAYE)**

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

**Buy as you earn (BAYE)**

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

The Group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total expense of £98,000 (2018: £103,000) relating to equity-settled share-based payment transactions.

**8 Net interest (payable)**

	2019 £000	2018 £000
Bank interest receivable	395	180
Interest payable on parent company loans (note 15)	(1,062)	(239)
Unwind of discount on contract provision	(1,082)	-
	<u>(1,749)</u>	<u>(59)</u>

**8 Net interest (payable)**

	2019 £000	2018 £000
Bank interest receivable	395	180
Interest payable on parent company loans (note 15)	(1,062)	(239)
Unwind of discount on contract provision	(1,082)	-
	<u>(1,749)</u>	<u>(59)</u>

**9 Loss before taxation**

	2019 £000	2018 £000
Loss before taxation is stated after charging:		
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of the annual accounts	50	50
- Deloitte LLP non-audit fee for other services	8	8
Depreciation on tangible owned assets	3,046	1,607
Intangible asset amortisation	182	111
Rentals payable under operating leases		
- plant and machinery	9,511	74,556
- other operating leases	<u>38,170</u>	<u>21,629</u>

**10 Tax on loss**

	2019 £000	2018 £000
Current taxation		
- UK corporation tax credit for the year	(3,405)	(430)
- Adjustment in respect of prior years	<u>(812)</u>	<u>(1)</u>
Total current taxation	<u>(4,217)</u>	<u>(431)</u>
Deferred taxation		
- Origination and reversal of timing differences	2,733	(19,162)
- Effect of decrease in tax rate on opening deferred tax balance	-	-
- Adjustment in respect of prior years	<u>774</u>	<u>217</u>
Total deferred taxation	<u>3,507</u>	<u>(18,945)</u>
Total tax credit on profit	<u>(710)</u>	<u>(19,376)</u>

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2018: 19%).

**10 Tax on loss (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:

	2019 £'000	2018 £'000
Loss multiplied by standard rate of corporation tax in the United Kingdom of 19% (2018: 19%)	(351)	(21,567)
Expenses not deductible for tax purposes	-	(42)
Prior year adjustments	216	216
Effect of decrease in tax rate on origination and reversal of timing differences	(321)	2,017
Total tax credit	<u>(710)</u>	<u>(19,376)</u>

The applicable tax rate has changed following substantive enactment of the Finance Act 2016 which was substantively enacted on 6 September 2016 which contains provisions to further reduce the rate of corporation tax to 17% with effect from 1 April 2020. Accordingly, deferred tax assets and liabilities have been calculated at the rates which will be in force when the timing differences are projected to reverse.

**11 Intangible fixed assets**

	Computer software £000
<b>Cost</b>	
At 1 April 2018	2,731
At 31 March 2019	<u>2,731</u>
<b>Amortisation</b>	
At 1 April 2018	111
Charge for year	182
At 31 March 2019	<u>293</u>
<b>Net book value</b>	
At 31 March 2018	<u>2,620</u>
At 31 March 2019	<u>2,438</u>

**11 Intangible fixed assets (continued)**

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 (2018: £1.776m) of assets in course of construction, which are not amortised until they are brought into use.

**12 Tangible fixed assets**

	Plant and equipment £000
<b>Cost</b>	
At 1 April 2018	15,961
Additions	12,187
At 31 March 2019	<u>28,148</u>
<b>Accumulated depreciation</b>	
At 1 April 2018	2,151
Charge for year	3,046
At 31 March 2019	<u>5,197</u>
<b>Net book value</b>	
At 31 March 2018	<u>13,810</u>
At 31 March 2019	<u>22,951</u>

Included in plant and equipment is £3.5m (2018: £1.5m) of assets under construction, which are not depreciated until they are brought into use. This primarily relates to depot improvement works.

**13 Stock**

	2019 £000	2018 £000
Fuel	<u>132</u>	<u>122</u>

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

**14 Debtors**

	2019 £000	2018 £000
<b>Amounts due within one year</b>		
Trade debtors (including amounts recoverable from Network Rail)	36,358	37,047
Amounts recoverable on contracts	43,288	-
Amounts due from group undertakings	65	-
Other debtors (primarily VAT)	2,305	1,725
Other prepayments and accrued income	2,088	2,027
Deferred tax asset (note 17)	15,630	19,137
Group tax relief	4,217	431
	<u>103,951</u>	<u>60,367</u>

Amounts due from group undertakings relate primarily to charges due from First Group Holdings Limited.

**15 Creditors**

	2019 £000	2018 £000
<b>Amounts falling due within one year</b>		
Trade creditors	17,886	11,390
Amounts owed to group undertakings	10,000	11,198
Other tax and social security	2,276	1,590
Other creditors	2,811	2,676
Accruals	88,111	43,558
Deferred income	56,573	39,485
	<u>177,657</u>	<u>109,897</u>
<b>Amounts falling due after more than one year</b>		
Amounts owed to group undertakings	22,267	15,390
	<u>199,924</u>	<u>125,287</u>

Amounts owed to group undertakings includes an interest-free loan of £10m (2018: £20m) from FirstGroup plc repayable in four equal quarterly instalments from 1 April 2019. The loan has been valued using a zero rate market curve. The financing surplus of £0.1m (2018: £0.05m) has been treated as a capital contribution. During the current year a further loan of £17m (2018: 5.5m) was drawn down. This is an interest-bearing loan, with a fixed rate of 7% per annum, with no repayment schedule.

**16 Provisions for liabilities and charges**

	Lease Obligations £000	Contract Provision £000	Total £000
At 1 April 2018	680	106,300	106,980
Credited to the profit and loss account	-	-	-
Utilised in the year	-	(501)	(501)
Unwind of discount on contract provision	-	1,082	1,082
At 31 March 2019	<u>680</u>	<u>106,881</u>	<u>107,561</u>
		2019 £000	2018 £000

**Amounts falling due within one year**

Lease obligations	680	680
Contract provision	<u>29,700</u>	<u>27,100</u>
At 31 March	<u>30,380</u>	<u>27,780</u>
	2019 £000	2018 £000

**Amounts falling due after more than one year**

Unwind of discount factor on contract provision	1,082	-
Contract provision	<u>76,099</u>	<u>79,200</u>
At 31 March	<u>77,181</u>	<u>79,200</u>
<b>Total Provision for liabilities and charges</b>	<u>107,561</u>	<u>106,980</u>

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

At 31 March 2019, the dilapidation provisions were £0.68m (2018: £0.68m). This was made up of the liabilities for the class 350 train fleet, as well as remaining liabilities at office locations around the network.

Last year, the onerous contract provision was established based on latest financial forecasts for the franchise until the initial end date of 31 March 2023. The forecasts were based on a number of assumptions, most significantly passenger revenue growth, which included economic and other exogenous factors as well as changes in timetables, capacity and rolling stock.

**16 Provisions for liabilities and charges (continued)**

Whilst the provision is based upon management's current best estimate, there can be no certainty that actual results will be consistent with those forecasts. The franchise contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth. A reduction or increase of 0.5% in the cumulative annual passenger growth rate assumption would increase or decrease the onerous contract provision required by approximately £24m. The provisions are expected to be fully utilised within five years.

**17 Deferred taxation**

	£000
Asset at 1 April 2018	19,137
Charged to Profit and Loss Account	(3,507)
Asset at 31 March 2019	<u>15,630</u>

The deferred tax asset comprises:

	2019 £000	2018 £000
Capital allowances less than depreciation	(22)	(2,131)
Other timing differences	51	2,189
Losses	15,601	19,079
Deferred tax asset	<u>15,630</u>	<u>19,137</u>

**18 Called up share capital**

	2019 £	2018 £
Allotted, called up and fully paid		
1 ordinary share of £1	<u>1</u>	<u>1</u>

The company's other reserves are as follows:

The profit and loss account represents cumulative profit and losses, net of dividends paid and other adjustments.



## **19 Commitments**

### **Capital commitments**

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

	2019 £'000	2018 £'000
Contracted for but not provided	<u>8,555</u>	<u>1,212</u>

These capital commitments have been made as part of our franchise agreement with the DfT. These relates primarily to fleet depot and platforms expansion programmes.

### **Operating leases**

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

	2019		2018	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	5,970	48,286	5,950	32,354
Between one and five years	16,921	382,267	18,924	335,151
After five years	-	-	3,967	101,601
	<u>28,891</u>	<u>430,553</u>	<u>28,841</u>	<u>469,106</u>

## **20 Contingent liabilities**

The company had no contingent liabilities at the reporting date (2018: £nil).

FirstGroup plc has provided performance bonds of £15m (2018: £15m) backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the company.

FirstGroup plc has provided parent company support in the form of a subordinated loan facility totalling £168.8m (2018: £168.8m), which is 50% backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the company. As stated in note 15, £17.0m (2018: £5.5m) of this loan facility was drawn down during the year to 31 March 2019 with an outstanding balance of £23.8m at 31 March 2019 (2018: £5.8 m).

**20 Contingent liabilities (continued)**

As stated in note 1, the Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long-term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes 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.

**21 Pension liability**

**Railways Pension Scheme - TransPennine Express Section**

**Defined contribution schemes**

The company operates a defined contribution retirement benefit schemes for all qualifying employees. The total expense charge to the profit and loss in the year ended 31 March 2019 was £0.1m (2018: £0.1m).

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme (RPS). Under the terms of the RPS the employer (60%) and the employees (40%) share any fund deficit. The operating cost relating to this scheme in the year was £4.0m (2018: £3.7m).

The scheme is valued triennially, when the cost of future service is calculated and the funding position established. The last valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle in respect of the costs used in these financial statements. A draft actuarial valuation at 31 December 2016 was completed during 2017 and there is a legal obligation to finalise the valuations and schedules of contributions before the statutory deadline of 31 March 2018. Discussions with the Pensions Regulator, and other stakeholders, in relation to the Pensions Act valuation for all Railway Pension Schemes for the Train Operating Companies are still ongoing and this process is likely to continue for some time. Until the valuation is complete, the investment strategy and cash contributions remain unchanged from those agreed as part of the 2013 valuation.

The actuarial valuation was updated for 31 March 2019; at this date the market value of the scheme's assets totalled £166.1m, £59m for the former First North Western section and £107.1m for the former Arriva Trains Northern section. The actuarial value of these assets was sufficient to cover 54% (2018: 57%) of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 9.64% (2018: 9.64%) for the former First North Western' employees and 14.46% (2018: 14.46%) for the employer. For the former First Arriva Trains Northern' employees, the current contribution rate is 10.12% (2018: 10.12%) and 15.18% (2018: 15.18%) for the employer.

**21 Pension liability (continued)**

**Defined benefit schemes (continued)**

**Financial assumptions**

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

	2019 £000	2018 £000
Rate of increase in salaries	3.40%	3.30%
Rate of increase of pensions in payment	2.15%	2.05%
Rate of increase of pensions in deferment	2.15%	2.05%
Discount rate	2.40%	2.70%
Inflation assumption – CPI	2.15%	2.05%
Inflation assumption - RPI	3.15%	3.05%

**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, 21.1 years (2018: 20.6 years); future pensioners at 65 aged 45 now, 22.3 years (2018: 21.9 years).

**Asset values**

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

	2019 £000	2018 £000
Real Estate	1,600	2,162
Private Equity	13,500	11,958
Cash plus	150,970	130,310
	<u>166,070</u>	<u>144,430</u>

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

**FIRST TRANSPENNINE EXPRESS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2019**

Page 34

**21 Pension liability (continued)**

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

**FIRST TRANSPENNINE EXPRESS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2019**

Page 35

**21 Pension liability (continued)**

	Assets	Liabilities	Shared cost	Franchise impact	Net
Balance sheet at 1 April 2018	144,430	(253,043)	43,446	65,169	-
Income Statement					
Operating					
- Service cost	-	(15,896)	6,319	6,154	(3,423)
- Administration cost	-	(976)	391	-	(586)
- Past service gain including curtailments	-	(247)	98	147	-
Total Operating cost	-	(17,119)	6,807	6,301	(4,009)
Financing	3,958	(6,778)	1,128	1,692	-
Total Income Statement	3,958	(23,897)	7,935	7,993	(4,009)
Amounts paid to / from scheme					
Employer contributions	4,009	-	(1,604)	1,604	4,009
BRASS matching contributions	-	-	-	-	-
Employee contributions	2,607	-	(1,043)	(1,564)	-
Benefits paid	(3,386)	3,386	-	-	-
Total	3,230	3,386	(2,646)	39	4,009
Expected closing position	151,618	(273,554)	48,735	73,201	-
Gains / losses					
Change in financial assumptions	-	(27,043)	10,817	16,226	-
Change in demographic assumptions	-	(5,000)	2,000	3,000	-
Return on assets in excess of discount rate	14,452	-	(5,781)	(8,671)	-
Experience	-	(1,000)	440	560	-
Total	14,452	(33,043)	7,476	11,115	-
Balance sheet at 31 March 2019	166,070	(306,597)	56,211	84,316	-

**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.