Company Registration No. 07900320

FIRST MTR SOUTH WESTERN TRAINS LIMITED

Annual Report and Financial Statements

For the Year ended 31 March 2020

First MTR South Western Trains Limited

Contents

First MTR South Western Trains Limited

Strategic Report

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006. The Company is registered in England and Wales and is a subsidiary of First Rail Holdings Limited by virtue of a 70% shareholding. MTR Corporation Limited (MTR) has a non-controlling interest of 30%.

Principal activities

The Company holds the South Western Rail franchise until 18 August 2024. After this period, the Secretary of State has the right to extend the contract up to 21 June 2025.

The Company operates passenger rail services on some of the busiest routes in the country, providing over 1,800 services each weekday. The franchise covers urban, suburban, regional and long-distance services to passengers in south west London and southern counties of England, and Island Line services on the Isle of Wight, as well as providing connectivity to the ports and airports in the region.

Business review

In the year, our turnover decreased to £1,087.2m (2019: £1,108.5m). Passenger volume decreased by 3.8% reflecting the effect of strike action, the modal shift due to lower fuel prices and changing work patterns and lifestyles as well as the Coronavirus impact in the last two periods of the year. Operational conditions across the industry this year were challenging with infrastructure upgrade works across our networks affecting our franchise performance levels. UK macroeconomic uncertainty also weighed on passenger revenue in the year and the effect of Coronavirus is likely to prolong this uncertainty.

The Company is focussed on working with the Department for Transport (DfT), Network Rail and other industry partners to deliver improvements to performance and reliability and better customer experiences to drive sustainable patronage growth. Key initiatives in the year have revolved around the delivery of Committed Obligations and other plans, including:

- Introduction of Tap2Go Smart ticketing for customers outside of the London travel area;
- Completed installation of ticket barriers at 13 additional stations
- Launched SWR Stream infotainment services on long-distance train services;
- Completed refurbishment of Desiro fleet of trains;
- Accessibility improvements at stations; and
- Environmental and sustainability strategy to the very heart of the franchise.

We have continued to invest in passenger convenience including initiatives to promote contactless payment, online and mobile ticketing and travel information improvements and other technology to streamline and enhance our operations and responsiveness to customers and other stakeholders. Meanwhile our commitment to the safety of our passengers, our employees and all third parties interacting with our business remains unwavering. Our approach to safety is focussed on innovative technology, external assurance and our behavioural change programme, Be Safe, all of which have made further progress in the year towards ensuring we are always operating to the highest standards.

The Company made an operating loss for the year of £1.1m (2019: loss of £137.8m). The operating loss has been reduced by the credit during the year of £52.8m in respect of utilisation of the onerous contract provision charged last year (note 17). The Company is in a net liability position of £133.4m (2019: net liability of £129.3m) resulting from the onerous contract provision relating to the forecast losses to be made to the end of the franchise.

Coronavirus Pandemic response

In line with the wider UK rail industry, passenger volumes in our businesses reduced substantially from the second half of March 2020 as government advice and regulations changed, with revenue c.95% lower in this period than last year. Following consultation with the DfT, the industry began operating a reduced timetable from 23 March 2020. Since year end, services have been gradually restored beginning with the timetable change on 18 May 2020 although demand remains at unprecedentedly low levels.

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Strategic Report (continued)

Coronavirus Pandemic response (continued)

The UK Government acted swiftly to sustain the country's rail networks during the pandemic, ensuring services could continue to be operated for essential workers to travel by rail to perform their vital roles. Prior to the end of the year, the DfT confirmed that an Emergency Measures Agreement (EMA) would be put in place and would be effective from 1 March 2020 through to 20 September 2020. This agreement was formally signed at the end of March 2020. On 19 September 2020 the DfT confirmed that it had extended its ongoing funding for Train Operating Companies (TOCs) and that this funding would be in the form of Emergency Recovery Measures Agreements (ERMA) which are similar in operation to the EMA but with the fixed fee and overall fee potential lower under the new ERMA and more heavily weighted to performance delivery. In addition, the ERMAs also introduce additional operational and customer service metrics. During the term of the ERMAs, the DfT will continue to waive the revenue, cost and contingent capital risk of the TOCs and will pay them a fixed management fee. There is also the potential for an additional performance-based fee. The ERMA for the South Western Railway franchise is in place until 31 March 2021.

The DfT has also stated it intends to begin discussions with the TOCs to transition to new, directly awarded contracts for the longer term, which would come into effect at the end of the ERMAs. To this end, each of the ERMAs requires that by mid-December 2020 the TOC agrees with the DfT whether, and if so, how much parent company support or other payments are required to terminate the pre-existing franchise agreements. If any such termination sums are agreed, they would fall due at the end of the ERMA term, at which point the pre-existing franchise contract would also terminate by agreement. However, if the termination sum for a TOC cannot be agreed by mid-December then the DfT has the right to terminate that ERMA early, with the TOC reverting to substantially all of the pre-existing franchise terms, from mid-January 2021. Assuming the termination sums are agreed, the DfT intends to negotiate a new direct award contract under which the TOC will deliver passenger rail services following the end of the ERMA.

The business is also using its position as part of the essential fabric of the communities in which we operate to deliver support and assistance during this challenging time. We are responsible partners with our customers and communities, and we work with community organisations across the network.

Current trading and future outlook

We operated from 1 March 2020 in accordance with the terms of the EMA in place until 20 September 2020. We are currently operating under the ERMA which replaced the EMA which continues to address the continuing impact of the pandemic on the railway whilst providing vital services that connect communities. An almost full train service is being run by the Company to ensure there is space to help passengers travel safely on our trains.

There are uncertainties as to how rapidly demand will recover, and the duration of social distancing rules. It is difficult to assess what effect the continued impact of the Coronavirus Pandemic might have on the wider economy and the areas in which we operate. However, this impact is mitigated by the ERMA arrangements up to 31 March 2021 and after this date it is anticipated that there will be either an extension of the ERMA for a further 6 months at the discretion of the DfT (as expressly set out and permitted by the ERMA terms) or completion of discussions on a transition to a directly awarded management contract which would not be expected to carry revenue or cost risk. The ability of the business to continue to operate as a going concern in its current form remains strongly dependent on the continuance of UK Government support.

Despite the challenge presented by the pandemic, we continue with the delivery of our £1.2bn transformation and in the coming year with the introduction of new Arterio trains, will bring customer benefits through more reliable journeys, improved customer information and enhanced customer experience; along with improved station facilities and roll out of smart ticketing. We believe that this will help drive the longer-term recovery in our annual patronage and revenue growth, from the reduced levels resulting from the effect of Coronavirus.

At stations we are delivering new and upgraded customer information screens, improved waiting and interchange facilities and free WiFi – extended from 5 to 187 stations. Towards the end of 2020 we will begin to receive a fleet of new suburban trains.

Whilst the Coronavirus Pandemic has brought new, significant challenges, there is also considerable uncertainty about a number of other factors affecting the performance of our franchise, including infrastructure reliability, timetabling

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Strategic Report (continued)

Current trading and future outlook (continued)

delays and industrial action. We are in discussions with the DfT regarding potential commercial and contractual remedies in respect of these uncertainties, which are discussed in the Going Concern section below.

Our performance was principally challenged in the year to March 2020 by industrial action by the RMT trade union which caused significant issues for our passengers throughout the year, including an unwarranted month-long strike in December 2019. We are committed to delivering a resolution to this dispute which remains ongoing despite our offer of an agreement that means no-one loses their job and a guard is kept on every train. We have resolved to find a solution that will be of benefit to everyone involved with the Company, in particular our customers. Ongoing Network Rail infrastructure problems outside of our control have also continued to have an impact on our performance and we continue to work with them to mitigate these.

In the meantime, we are focused on delivering improvements to the passenger experience and as part of this we introduced refurbished trains to the Portsmouth-London line in late 2019, with new suburban rolling stock due in the coming months. Timetable changes in May and December 2019 added more than 350 new services per week and further incremental improvements are planned for future timetables in December 2020 and beyond, Coronavirus allowing.
We have commenced improvements for the Isle of Wight's railway. Island Line will undergo infrastructure improvements to allow for regular service patterns and smoother journeys and in Spring 2021 new Class 484 trains will enter service on the island.

We remain focused on working with our industry partners to deliver improvements to performance and reliability and better customer experiences, which in turn will result in passengers returning to the railway over time. We will also be working with the DfT to support the recovery from the impacts of the Coronavirus Pandemic.

The Company continues to demonstrate strengths across the business, both operationally and from a fleet and infrastructure perspective. It is through the investment in infrastructure, stations, rolling stock and with new timetables that we will deliver improvements, which will transform the customer experience. Our work with Network Rail remains critical to delivery of this programme, and the close working relationship we have built as part of our local alliance agreement will continue to be a valuable tool in responding to challenges in the future.

Responsible partnerships with our customers and communities

The Company continues to build on the success of the Customer and Communities Improvement Fund which works with community organisations across the network to give grants to projects.

Going concern

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

Background for going concern

The Company is a business that provides essential services to the communities it serves. Continuity of transport is proving essential to governments, local communities and many of our customers during the Coronavirus Pandemic. It will also be critical to the return to normal conditions when the present uncertain situation is overcome. The funding received from government to sustain services through the EMA initially, and subsequently the ERMA, is testament to the importance of our offering to those we serve.

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

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Strategic Report (continued)

Going concern (continued)

Background for going concern (continued)

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

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

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

- the likelihood of a Coronavirus impact in the UK remaining in place for the foreseeable future;
- the terms of the ERMA to 31 March 2021 and the potential terms of any management contract or continuation agreement following this;
- the impact of any payment due in relation to termination of the existing franchise agreement as set out within the ERMA
- the potential impacts on financial and trading performance without the levels of government support currently being provided under the ERMA
- the protection (if any) provided within the franchise agreement; and
- the timing of working capital flows

These financial forecasts assume continued fiscal and contractual support with the business seeing a gradual return in passenger revenues, although this is unlikely to result in smooth growth as actions to address local and national hotspots of Covid-19 cause short term falls and rises in passenger numbers.

Given the extent to which current fiscal and contractual support underpins the businesses at present levels of passenger demand and restrictions on social distancing, and the fact that the support measures are being provided by governments to allow the Company to continue to run essential services, it was not considered necessary to run alternative stress tests.

A letter of support has been provided by the ultimate parent company FirstGroup plc and MTR Corporation Limited stating that they will provide the Company with funding up to the limit of the contingent commitments for parental company support, agreed funding commitment and performance bond as set out within the franchise agreement, and which may be required to meet the terms of any agreed termination fee within a period of no more than twelve months from the signing of the annual accounts. The directors have made enquiries and note that the FirstGroup plc 2020 Annual Report and Accounts state that material uncertainties also exist in its ability to continue as a going concern in the event of certain circumstances (as explained in pages 72 to 73 of the FirstGroup plc 2020 Annual Report and Accounts). This has been taken into account in the going concern assessment for the Company (see below).

The ERMA sets out a process for agreement of any termination fee in respect of the existing franchise agreement and states that failure to conclude the agreement of any termination fee successfully will result in the termination of the ERMA and a return to the existing franchise agreement terms. In the unlikely event of a failure to reach agreement on any termination fee, it is the directors' view that this could result in the services being transferred to a publicly owned operator within a period of no more than 12 months, at which point the Company would settle existing liabilities up to the limit of the contingent commitments for parental company support, agreed funding commitment and performance bond as set out within the franchise agreement. Responsibility for all future obligations under the franchise would transfer to the next operator.

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Strategic Report (continued)

Going concern (continued)

Significant going concern judgements

In using these financial forecasts for the going concern assessment, the directors have made significant judgements in forming assumptions regarding how the impact of the Coronavirus Pandemic might evolve in the coming months and what impact that will have on the ability of the business to resume near normal levels of service. Many of those judgements are, by their nature, highly subjective and the modelled outcomes depend to a significant degree on how the Coronavirus Pandemic evolves during the next 12 months. There is therefore a much higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the financial forecasts. The Coronavirus Pandemic is unprecedented and the long-term effect it will have on the wider economy or demand for our services is very difficult to predict.

Material uncertainty as to going concern statement

The directors consider that the risks set out below indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The material uncertainty relates to:

- the levels of fiscal, financial and contractual support which may be provided beyond 31 March 2021, the period for which that funding and contractual support is currently being provided;
- whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal, financial and contractual support;
- the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support;
- the value and agreement of the termination fee for the franchise agreement as set out within the ERMA;
- the ability of the ultimate parent company FirstGroup plc to fulfil its obligations to provide contingent capital funding as set out under the terms of the franchise agreement for the reasons set out above and more fully explained on pages 72 to 73 of the FirstGroup plc 2020 Annual Report and Accounts.

Going concern statement

Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the Company is exposed (including the material uncertainty referred to above) the directors believe that the Company has adequate resources to continue in operational existence for the 12 month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

Key performance indicators

Financial key performance indicators are revenue and operating profit/loss, which are discussed in the Business Review on page 2. The key non-financial performance indicators are as follows:

Train operating performance was below targeted levels in 2019/20 with our industry standard public performance measure (PPM) moving average score standing at 80.5% (2019: 82.3%). PPM is determined by the number of trains which arrive at destinations within the individual train operating company benchmark target. This performance figure was impacted by severe weather conditions and infrastructure related issues.

In the latest independent Transport Focus National Rail Passenger Spring Survey, the Company achieved 75% (2019: 78%) customer satisfaction against a target of 78% (2019: 80%). The decrease in score was predominantly due to punctuality and reliability scores declining.

The Company's average headcount in the year increased to 5,331 (2019: 5,074), an increase of 5%.

Passenger volume decreased by 3.8% as noted in the Business Review on page 2.

Strategic Report (continued)

Principal risks and uncertainties

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

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

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

Coronavirus Pandemic

Government and societal responses to the pandemic have had a significant impact on all of our markets and will continue to do so for some time to come. Travel volumes have reduced very substantially and while guidance to limit travel and socially distance remains in place, this will have a significant impact on our service capacity and financial performance. At the same time, the government recognises the need to maintain our services and is enabling this through contractual support, initially through the EMA and subsequently through the ERMA. There are uncertainties as to how rapidly demand will recover, and the duration of social distancing rules. It is difficult to assess what effect the continued impact of the Coronavirus Pandemic might have on the wider economy and the areas in which we operate. However, this impact is mitigated by the ERMA arrangements up to 31 March 2021 and after this date it is anticipated that there will be either an extension of the ERMA for a further 6 months at the discretion of the DfT (as expressly set out and permitted by the ERMA terms) or completion of discussions on a transition to a directly awarded management contract which would not be expected to carry revenue or cost risk. The ability of the business to continue to operate as a going concern in its current form remains strongly dependent on the continuance of UK Government support.

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

- Our first priority from the start of the Coronavirus outbreak was the health and safety of our passengers, employees and the communities in which we operate. We, in conjunction with FirstGroup, took rapid action to apply the advice of governments and health authorities, including implementing additional cleaning regimes and the provision of advice to passengers. At the same time, steps were taken to ensure that we could continue to provide essential transport services so that key workers and people who needed to travel could still do so safely;

- We worked closely with our suppliers to ensure we had the appropriate equipment in place, in line with relevant public health authority guidance for our operations. We followed, and in some cases developed, best practice in areas such as the cleaning and decontamination of trains, stations, depots and offices;

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

- Our information technology professionals have been required to provide remote access to enable a significant proportion of our office-based staff to work from home; and

- We have been able to benefit from the reduction in fuel prices arising out of the oil supply-demand imbalance caused by Coronavirus. FirstGroup plc has responsibility for hedging our fuel costs and no hedging has been put in place since 31 March 2020. As a result, we have been able to benefit from the lower fuel prices experienced in the 2020/21 financial year.

Strategic Report (continued)

Principal risks and uncertainties (continued)

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. Throughout the franchise there will be significant change including major infrastructure work, re-signalling, as well as the introduction of new trains, which will require careful planning and management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational risk to the Company.

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

Under the terms of ERMAs, failure to conclude the agreement of any termination fee successfully will result in the termination of the ERMA and a return to the existing franchise agreement terms with the Company assuming full revenue and cost risk. Full co-operation with the DfT and its process for negotiating and agreeing the termination fee will mitigate this risk.

Information technology (IT)

Our business relies on information technology in all aspects of its operations. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information (including credit card and personal data). Process failure, security breach or other operational difficulties may also lead to revenue loss, increased costs, fines, penalties or additional insurance requirements. Prolonged failure of our sales website could also adversely affect revenues.

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

We focus on asset management and further enhanced our IT security processes and procedures to mitigate this risk.

Data security (including cyber security & GDPR)

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

We have threat detection systems across our business but continue to remain vigilant to security improvements when identified.

Political and regulatory issues

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

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

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Strategic Report (continued)

Principal risks and uncertainties (continued)

Competition

Our main competitors include private car and other public and private transport operators across our network. Emerging technologies such as Uber, ride sharing apps and price comparison websites make access to alternative solutions easier. Increased competition can result in lost business, revenue and reduced profitability.

To mitigate this risk the Company continues to focus on service quality and performance as priorities in making our service attractive to passengers and other customers. In addition, we work with local and national bodies to promote measures aimed at increasing demand for our services. We have a dedicated Customer Experience Team focused on improving our service to customers and improving access to our services.

Customer service

Our revenues are at risk if we do not continue to provide the level of service expected by customers. Payments from our new customer compensation mechanism are also exclusively driven by the performance of our train service. 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.

Pension scheme funding

The Company primarily participates in a defined benefits pension scheme, Railways Pension Scheme ("RPS", or "the Scheme"). Future cash contribution requirements may increase or decrease based on financial markets, notably investment returns/valuations, the rates used to value the liabilities and through changes to life expectancy. 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 cashflow risk within our franchise.

At the previous year-end, we noted that The Pensions Regulator (TPR) had been in discussion with the Scheme regarding the assumptions used to determine the Scheme's funding requirements. Discussions have continued during the year and are ongoing. The possibility remains of changes to contributions that could impact all rail operators sponsoring this industry-wide scheme. We continue to await the results of these discussions. The 2019 scheme valuation has commenced but any outcome will be held pending the discussions between TPR and the Scheme.

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

Management continues to believe that the protections contained within current franchise agreements will allow the Scheme to continue with its current funding strategy in the short-term and therefore pension scheme assets and liabilities do not appear on the Company's balance sheet. Nevertheless, TPR believes that a higher level of funding is required in the longer term, and our parent company has been engaged with the industry-wide project to consider the funding of the Scheme.

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

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 operation.

Principal risks and uncertainties (continued)

Employee costs and relations (continued)

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 and employee surveys.

Compliance, litigation and claims, health and safety

Our 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. The Company self-insures 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.

Fuel costs

Fuel prices and supply levels can be influenced significantly by international, political and economic circumstances. If fuel supply shortages were to rise 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 result.

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.

Disruption to infrastructure/operations

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

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

The Company has a Head of Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of our employees so that they can respond effectively to any perceived threat or incident.

Environment and climate change

Environmental and climate change issues are key issues facing the transport sector and have the potential to carry significant risks. We are well positioned to mitigate against these risks through our environmental and sustainability strategy. The Company continues to build on the prestigious international standards for environmental and energy management by maintaining certification to ISO 14001:2015 and ISO 50001:2011. Contracts and projects with suppliers with significant environmental risk are now evaluated by our Sustainability team.

Economic conditions including Brexit

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 passenger numbers and hence our operations. Covid-19 has resulted in an unprecedented downward impact on UK economic output. A less positive economic outlook, or a disruptive exit from the EU 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

Strategic Report (continued)

Principal risks and uncertainties (continued)

Economic conditions including Brexit (continued)

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.

To mitigate these risks, we continue to focus on building revenue streams and controlling costs to ensure we remain competitive.

Companies Act 2006 Section 172 Statement

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

- Customers
- Investors (FirstGroup plc and MTR Corporation Limted)
- Government and political stakeholders
- Our People
- Communities
- Strategic partners and suppliers

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

Engaging ethically

In line with our values and the expectations of our customers and partners, we are committed to conducting our relationships with our stakeholders with high ethical and moral standards in all our interactions. Our values and ethical commitment shape not only what we do, but also how we do it.

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

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

We have a zero-tolerance approach to bribery, and never offer or accept any form of payment or incentive intended to improperly influence a business decision. Equally, we support free and open competition, gaining our competitive advantage by providing the highest level of service, not through unethical or illegal business practices.

We have internal control systems and procedures in place to counter bribery and corruption. Similarly, we respect and protect the privacy of our customers, employees and stakeholders, and are committed to conducting our business in accordance with all applicable data protection legislation, including the General Data Protection Regulation and the UK Data Protection Act. We have an externally managed whistleblowing service for colleagues available with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. All reported issues or concerns to the hotline are taken seriously and investigated as appropriate, ensuring that confidentiality is respected at all times.

Companies Act 2006 Section 172 Statement (continued)

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

Customers

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

Investors

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

Government and political stakeholders

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

Our People

- Regular 'Your Voice' employee engagement surveys
- Dialogue with employee representatives, including with the trade unions
- Inductions, onboarding sessions and employee handbooks
- Multiple internal communications channels, including our intranet, briefings, newsletters and our employee mobile apps
- Individual performance reviews and development discussions or Time with Your Manager meetings

Communities

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

Strategic partners and suppliers

- Alliance with Network Rail's Wessex Route
- Regular dialogue with key partners
- Collaboration in cross-industry forums
- Certified systems for collaborative supplier relationships
- Clear ethical and sustainability standards

Below we describe the effect of having regard to Section 172 on the Company's decisions and strategies during the financial year:

- During March 2020 as the spread of Coronavirus was approaching its peak, the Company engaged with the DfT, union leaders, employee representatives and FirstGroup to establish a revised timetable which provided ongoing rail access to key workers to allow them to get to work. The revised timetable also allowed the Company to minimise ongoing exposure to the virus for the Company's on-train employees through a reduction of the onboard services being provided.
- In addition, new cleaning regimes were established in stations, on trains and in our offices to lower the risk of infection for both our passengers and our employees. The Company also procured additional IT equipment to enable office based staff to work from home to help mitigate the risk of the infection spreading within the office environments.

First MTR South Western Trains Limited

Strategic Report (continued)

Approved by the Board of Directors
And signed by order of the board

M Nelson
Director

30 October 2020

Capital House
25 Chapel Street
London
NW1 5DH

First MTR South Western Trains Limited

Directors' report

The directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 March 2020.

Matters included in the Strategic report

In accordance with s414C of the Companies Act 2006, included in the Strategic Report is information relating to the future development 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.

Directors

The directors who held office during the year and up to the date of signing the accounts are as follows:

H Clancy
S Montgomery
C Burrows
A James
M Nelson

The following directors resigned during the year: J Reynolds (21 June 2019), C Donaldson (8 December 2019) and A Mellors (6 January 2020). There were no new directors appointed during the year. Since the end of the year, K Gardner resigned on 29 May 2020 and J Long resigned on 30 September 2020, A King was appointed on 1 June 2020, S Murphy was appointed on 1 October 2020, and J Roberts was appointed on 12 October 2020.

Donations

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

Corporate governance arrangements

The Company has chosen not to apply any corporate governance code for the financial year and is not required to adopt a corporate governance code. However, the directors have agreed to act within the governance framework established by its ultimate parent company, FirstGroup plc, as the FirstGroup governance framework is fit for purpose in helping the Company to achieve its business goals. FirstGroup's governance framework and compliance with the UK Corporate Governance Code are described in its Annual Report and Accounts for the year ended 31 March 2020.

From the perspective of the Board, a key aspect of FirstGroup's governance is that the FirstGroup Board are responsible for the strategic direction, purpose, values, culture, corporate governance, capital expenditure and financing of the Group as these matters are reserved for them. The FirstGroup Board is supported by a number of committees which are generally comprised of Executive and Non-Executive directors. The committees and their areas of responsibility are:

- Audit Committee – responsible for financial reporting, internal controls, internal and external audit, risk management and cyber security
- Board Safety Committee – responsible for safety policies and standards oversight; workforce wellbeing
- Nominations Committee – responsible for FirstGroup Board appointments, succession planning, FirstGroup Board member skills and experience; diversity
- Remuneration Committee – responsible for remuneration policy, executive directors and senior management remuneration, workforce remuneration policies and practices, rewards and incentives aligned with culture

Directors' report (continued)

Corporate governance arrangements (continued)

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

The Board is comprised of 8 directors and their role is to:

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

The Board meets on 12 occasions per year and on an ad hoc basis, as dictated by business needs. Papers are circulated in advance and the Company Secretary or the Executive Sponsor are available to brief those directors who are not available to attend meetings in person due to prior unavoidable commitments.

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

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

Employee engagement

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

Financial risk management objectives and policies

The Company's principal financial assets are bank balances and trade debtors. The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts.

The Company has no significant concentration of credit risk, with exposure spread over a large number of customers. The credit risk on liquid funds is limited because the counterparties are banks.

Liquidity within the Company has remained strong throughout the current year due to the nature of the rail industry with the vast majority of turnover transactions paid for in advance. This is demonstrated in cash and ring-fenced cash balances in note 15. Certain risks, for example, fuel price, are hedged on a group basis. The Company does not enter directly into any derivative financial instruments. As set out more fully in the going concern statement in the Strategic report on page 6, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Directors' report (continued)

Disabled persons

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

Financial matters

The results for the year are given in the profit and loss account on page 22.

No dividends were declared during, or after the year (2019: £nil).

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

Events subsequent to the end of the year

The Emergency Measures Agreement (EMA), effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The EMA has been replaced with an Emergency Recovery Measures Agreement (ERMA) that continues until 31 March 2021 and after this date it is anticipated that there will be either an extension of the ERMA for a further 6 months at the discretion of the DfT (as expressly set out and permitted by the ERMA terms) or completion of discussions on a transition to a directly awarded management contract which would not be expected to carry revenue or cost risk.

Coronavirus continues to have an adverse impact on both the rail industry and the wider economy of the United Kingdom. Until there is a vaccine available it appears that these impacts will continue. In the meantime, the Company continues to look at ways of safely mitigating the risks of Coronavirus to our passengers, employees and our shareholders.

Future events

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

Engagement with customers, suppliers and other key stakeholders

The Section 172 report contained within the Strategic Report outlines the primary ways in which the Company fosters its business relationships with its key stakeholders.

Directors' indemnities

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

Auditor information

Each of the persons who is a director at the date of approval of this report confirms that:

- as far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 provision of s418(2) of the Companies Act 2006.

Directors' report (continued)

Auditor

The Company has passed an elective resolution dispensing with the requirement to appoint an auditor annually. During the year a new audit firm has been selected to succeed Deloitte LLP, who has been the auditor of the Company since 2017. As a result, PricewaterhouseCoopers LLP has indicated their willingness to act as auditor to the Company from the date of these Accounts and are therefore deemed appointed.

Approved by the Board of Directors
And signed by order of the board

M Nelson
Director

30 October 2020

Capital House
25 Chapel Street
London
NW1 5DH

First MTR South Western Trains Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each 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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 to 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.

First MTR South Western Trains Limited

Independent auditor's report to the members of First MTR South Western Trains Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of First MTR South Western Trains Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 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 24.

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.

Material uncertainty related to going concern

We draw attention to the going concern assessment in note 1(c) to the financial statements, which indicates that the material uncertainty relates to:

- the levels of fiscal, financial and contractual support which may be provided beyond 31 March 2021, the period for which that funding and contractual support is currently being provided;
- whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal, financial and contractual support;
- the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support;
- the value and agreement of the termination fee for the franchise agreement as set out within the ERMA;
- the ability of the ultimate parent company FirstGroup plc to fulfil its obligations to provide contingent capital funding as set out under the terms of the franchise agreement and more fully explained on pages 72 to 73 of the FirstGroup plc 2020 Annual Report and Accounts.

As stated in note 1(c), these events or conditions, along with the other matters as set forth in note 1(c), indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent auditor's report to the members of First MTR South Western Trains Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Independent auditor's report to the members of First MTR South Western Trains Limited (continued)

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.

Other matter

As the company was exempt from audit under section 480 of the Companies Act 2006 in the prior year we have not audited the corresponding amounts for that year.

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.

Lucy Openshaw

Lucy Openshaw FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

30 October 2020

First MTR South Western Trains Limited

Profit and Loss Account
Year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Turnover	2	1,087,158	1,108,526
Operating costs			
- General	3	(1,087,159)	(1,100,425)
- Exceptional	4	(1,053)	(145,900)
Total operating costs		(1,088,212)	(1,246,325)
Operating loss		(1,054)	(137,799)
Net interest payable	8	(3,059)	(776)
Loss on ordinary activities before taxation	9	(4,113)	(138,575)
Tax credit on loss on ordinary activities	10	-	1,627
Loss for the financial year		(4,113)	(136,948)

All activities relate to continuing operations.

Statement of comprehensive income
For the Year ended 31 March 2020

	£'000	2020 £'000	£'000	2019 £'000
Loss after tax for the financial year		(4,113)		(136,948)
Items that will not be reclassified subsequently to the profit and loss account:				
Actuarial gain/(loss) due to scheme assets and liabilities (note 21)	151,300		(82,200)	
Actuarial (loss)/gain due to rail franchise adjustment (note 21)	(151,300)		82,200	
Total other comprehensive income for the year		-		-
Total comprehensive expense for the year		(4,113)		(136,948)

First MTR South Western Trains Limited

Balance Sheet

As at 31 March 2020

	Notes	£'000	2020 £'000	£'000	2019 £'000
Fixed assets					
Intangible assets	11		863		1,009
Tangible assets	12		71,641		35,516
			72,504		36,525
Current assets					
Stocks	13	5,512		4,576	
Debtors	14	134,271		175,047	
Cash at bank and in hand	15	250,258		226,896	
		390,041		406,519	
Creditors: amounts falling due within one year	16	(431,027)		(394,859)	
Provisions for liabilities and charges: amounts falling due within one year	17	(95,917)		(78,637)	
Net current liabilities			(136,903)		(66,977)
Total assets less current liabilities			(64,399)		(30,452)
Creditors: amounts falling due after more than one year	16		(68,980)		(30,000)
Provisions for liabilities and charges: amounts falling due after one year	17		-		(68,814)
Net liability excluding pension liability			(133,379)		(129,266)
Pension liability	21		-		-
Net liability			(133,379)		(129,266)
Financed by:					
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account			(133,379)		(129,266)
Shareholder's funds			(133,379)		(129,266)

The accompanying notes on pages 25 to 46 form an integral part of these financial statements.

The financial statements of First MTR South Western Trains Limited, (registered number 07900320) were approved by the Board of Directors on 30 October 2020 and were signed on its behalf by:

Michael Nelson
Director

First MTR South Western Trains Limited

Statement of changes in equity

Year ended 31 March 2020

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 31 March 2018	-	7,252	7,252
Loss after tax for the year	-	(136,948)	(136,948)
Other comprehensive income	-	-	-
Share-based payments (note 7)	-	430	430
Balance at 31 March 2019	-	**(129,266)**	**(129,266)**
Loss after tax for the year	-	(4,113)	(4,113)
Other comprehensive income	-	-	-
Share-based payments (note 7)	-	-	-
Balance at 31 March 2020	-	**(133,379)**	**(133,379)**

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 MTR South Western Trains 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 4th Floor Capital House, 25 Chapel Street, London, United Kingdom, NW1 5DH.

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

(b) Basis of preparation

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

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

(c) Going concern

Since the year end the Company has continued to be loss-making, and the current forecasts assume continued fiscal and contractual support broadly at the levels currently in place under the ERMA with the business seeing a gradual but consistent return in passenger revenues, which it is anticipated will continue during the second half of the 2020-21 financial year.

The ultimate parent company and MTR Corporation Limited have re-affirmed their commitments made under the Funding Deed as set out in note 20 to the financial statements to allow it to continue in business for at least twelve months from the signing of the annual accounts. The directors have made enquiries and note that the FirstGroup plc 2020 Annual Report and Accounts state that material uncertainties also exist in its ability to continue as a going concern in the event of certain circumstances (as explained in pages 72 to 73 of the FirstGroup plc 2020 Annual Report and Accounts). This has been taken into account in the going concern assessment for the Company (see below).

The ERMA sets out a process for agreement of any termination fee in respect of the existing franchise agreement and states that failure to conclude the agreement of any termination fee successfully will result in the termination of the ERMA and a return to the existing franchise agreement terms. It is the directors' view that this would result in the services being transferred to a publicly owned operator within a period of no more than 12 months, at which point the Company would settle existing liabilities up to the limit of the contingent commitments for parental company support, agreed funding commitment and performance bond as set out within the franchise agreement. Responsibility for all future obligations under the franchise would transfer to the next operator.

The financial statements have been prepared under a going concern basis but the directors note that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

1. Principal accounting policies (continued)

(c) Going concern (continued)

The material uncertainty relates to:

- the levels of fiscal, financial and contractual support which may be provided beyond 31 March 2021, the period for which that funding and contractual support is currently being provided;
- whether passenger volumes recover to the levels necessary to sustain the business without the current fiscal, financial and contractual support;
- the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support;
- the value and agreement of the termination fee for the franchise agreement as set out within the ERMA;
- the ability of the ultimate parent company FirstGroup plc to fulfil its obligations to provide contingent capital funding as set out under the terms of the franchise agreement for the reasons set out above and more fully explained on pages 72 to 73 of the FirstGroup plc 2020 Annual Report and Accounts

After making enquiries and considering the above facts, the directors have concluded that the Company has adequate resources to continue in operational existence for the twelve-month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

(d) 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

(e) 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
Assets under construction	-	Nil

(f) Leases

The Company continues to account for leases under FRS 102 where all leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

(g) Grants and subsidies

Capital grants relating to tangible fixed assets are treated as a creditor 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.

1. Principal accounting policies (continued)

(h) Stocks

Stocks are valued at weighted average cost. Provision is made for obsolete and slow moving or defective items where appropriate.

(i) Financial assets and liabilities

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

(j) Impairment of financial assets

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

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

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

(k) 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.

(l) 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 profit and loss account. Where changes in assumptions can be made without changing the Trustee agreement these are recognised as a change in assumption in other comprehensive income.

1. Principal accounting policies (continued)

(l) Pension costs (continued)

Company Specific Schemes (continued)

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

Rail Franchise adjustment

In calculating the Company's pension obligation in respect of the Railway Pension Scheme (RPS), the Company's total pension deficit in accordance with FRS 102 Section 28 has been calculated. This deficit is reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the Company is not required to fund. The franchise adjustment, which has been calculated by FirstGroup's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flow of the Company's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and, in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to the Company and recognised in the accounts.

(m) Turnover

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Turnover from non-passenger receipts include rents receivable on property, commission on ticket sales, advertising receipts and other sundry income. Amounts are credited to the profit and loss account on the provision of services and in the period to which they relate. During March 2020, the Company saw the introduction of the Emergency Measures Agreement (EMA) due to COVID-19. Net EMA funding, including the management fee, is recognised as revenue in line with the revenue recognition policy for franchise subsidy receipts from the DfT

(n) Future ticket deferral

Attributable share of income from season tickets or railcards 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.

(o) 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.

(p) Share-based payments

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

1. Principal accounting policies (continued)

(p) Share-based payments (continued)

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

(q) Impairment

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

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

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

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

No areas of critical accounting judgements or key issues of estimation uncertainty have been identified in relation to Brexit.

i) Critical accounting judgements

Defined benefit 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 statement. 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 FRS 102 Section 28 net pension asset or liability to reflect that portion expected to pass to the next franchisee.

As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current franchisee. In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the profit and loss account, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of

1. Principal accounting policies (continued)

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

i) Critical accounting judgements (continued)

Defined benefit pension arrangements (continued)

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.

Measurement of defined benefit pension obligations requires estimation of suitable discount rates, the expected return of assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and the inflation rate assumption.

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 2020 was a liability of £nil (2019: £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 the cases were 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

1. Principal accounting policies (continued)

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

ii) Key sources of estimation uncertainty (continued)

Contract and franchise accounting (continued)

regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOC has access to shared infrastructure such as railway lines. Management is required to estimate the amount receivable and also payable taking account of the information available at the time.

The Company has received contractual and direct fiscal support as a result of Coronavirus. The key fundamental principle to the basis of preparation of the financial statements is that this support will continue to be provided until passenger volumes and operated service activities return towards pre-Coronavirus levels. The Emergency Measures Agreement (EMA), effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The Company is paid a management fee to continue running a revised National Rail timetable.

Net EMA funding, including the management fee, is recognised as revenue in Rail franchise subsidy receipts, in line with the revenue recognition policy for franchise subsidy receipts from the DfT. The accounts for the year ended 31 March 2020 have been prepared on the basis that the EMA has been replaced with an Emergency Recovery Measures Agreement (ERMA) that continues until 31 March 2021. Turnover received under the EMA for the year ended March 2020 was £36.9m.

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.

The franchise contract provision is sensitive to a change in the assumptions used, most notably to passenger revenue growth and amounts recoverable for strike amelioration. These factors make it impractical to provide sensitivity analysis on one single measure and its impact on the onerous contract provision. The contract provision charged last year of £145.9m was the maximum unavoidable loss under the franchise agreement. The provision has been increased during the year by a further £1.1m (note 17) which is now the maximum unavoidable loss under the franchise agreement, and £52.8m has been utilised. Estimation uncertainty remains around the closing provision as discussed in note 17.

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 activities within the United Kingdom. The Company has one principal class of business, namely, the provision of passenger transport services. Other revenue includes rents receivable on property, commission on ticket sales, advertising receipts and other sundry income.

2. Turnover (continued)

Turnover can be analysed as follows:	**2020 £'000**	**2019 £'000**
Passenger receipts	1,006,546	1,056,394
Net EMA funding	36,903	-
Other revenue	43,709	52,132
	1,087,158	1,108,526

3. Operating costs

	2020 £'000	**2019 £'000**
Hire of Rolling Stock	184,954	191,240
Station & track access and facilities	133,030	99,254
Other lease costs	2,103	2,174
Raw materials and consumables	65,410	69,058
Staff costs (note 5)	294,079	273,274
Other external charges	216,345	206,204
Utilisation of onerous contract provision (note 17)	(52,793)	-
Net franchise premium payments	228,742	250,236
Intangible asset amortisation (note 11)	891	907
Tangible asset depreciation (note 12)	14,398	8,078
	1,087,159	1,100,425

4. Other exceptional costs

Exceptional costs of £1.1m were charged to the profit and loss account (2019: £145.9m). The exceptional costs include a contract provision relating to the profitability of the franchise contract and the forecast losses arising from the Company's franchise and long-term contracts.

	2020 £'000	**2019 £'000**
Contract Provision (note 17)	1,053	145,900

The total tax credit relating to the contract provision for the year ending 31 March 2020 was £0.2m (2019: £27.7m).

5. Employee numbers and costs

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

	2020 Number	2019 Number
Operations	4,275	4,090
Maintenance	590	567
Customer service	154	173
Other	312	244
	5,331	5,074

The aggregate payroll costs of these persons were as follows:

	2020 £'000	2019 £'000
Wages and salaries	250,351	232,163
Social security costs	26,420	24,496
Pension costs (note 21)	17,308	16,615
	294,079	273,274

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 prior 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 these directors under the group defined benefit schemes are detailed in the financial statements of FirstGroup plc.

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

	2020 £'000	2019 £'000
Aggregate emoluments (excluding pension contributions)	211	460

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

One director was a members of the Company's defined benefit scheme (2019: 2)

6. Directors' remuneration (continued)

The emoluments of the highest paid director amounted to:	2020 £'000	2019 £'000
Aggregate emoluments (excluding pension contributions)	211	274
Defined benefit scheme		
Accrued pension at end of year	98	93
Accrued lump sum at end of year	78	76

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

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 £0.6m (2019: £0.4m) relating to equity-settled share-based payment transactions.

	2020 £'000	2019 £'000
Total expense recognised in the profit and loss account	633	430
Contribution paid to First Rail Holdings Limited (parent company)	(633)	-
Credited to shareholders funds	-	430

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

8. Net interest payable

	2020 £'000	2019 £'000
Interest payable and similar charges		
Amounts payable to group undertakings	(2,702)	(1,300)
Bank and other interest payable	(1,155)	(544)
Interest receivable and similar income	(3,857)	(1,844)
Bank interest receivable	798	1,068
Net interest payable	(3,059)	(776)

9. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation derives from the Company's principal activities within the United Kingdom.

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2020 £'000	2019 £'000
Auditor's remuneration		
- Deloitte LLP audit fee for the audit of the annual accounts	387	487
- Deloitte LLP non-audit fee for other services	24	15
Cost of stock recognised as an expense	65,410	69,058
Rentals payable under operating leases		
- plant and machinery	187,057	193,413
- other operating leases	133,030	99,254
Net rents receivable from property	(6,105)	(6,618)

10. Tax charge on loss on ordinary activities

	2020 £'000	2019 £'000
Current taxation		
- Group relief payable	-	(1,776)
- Prior year adjustment	-	214
Total current taxation	-	(1,562)
Deferred taxation		
- Origination and reversal of timing differences	-	103
- Prior year adjustment	-	(168)
	-	(65)
Total tax charge on loss on ordinary activities	-	(1,627)

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2019: 19%). The actual current tax charge for the current and previous year differed from the standard rate of corporation tax for the reasons set out in the following reconciliation:

	2020 £'000	2019 £'000
Loss before tax on ordinary activities	(4,113)	(138,575)
Tax on Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom (19%) (2019: 19%)	(781)	(26,329)
Factors affecting charge		
- Expenses not deductible for tax purposes	-	(1)
- Unrecognised losses	663	24,314
- Unrecognised temporary differences	118	354
- Prior year adjustments	-	46
- Effect of decrease in tax rate on origination and reversal of timing differences	-	(11)
Total tax credit on loss on ordinary activities	-	(1,627)

The UK Government enacted legislation to maintain the main rate of UK corporation tax at 19% from 1 April 2020 and deferred tax is now calculated at 19%. Under the enacted legislation at 31 March 2019 the rate was set to reduce to 17% from 31 March 2020 resulting in deferred tax being calculated at 17% in the prior year.

11. Intangible fixed assets

	Computer Software £'000
Cost	
At 1 April 2019	2,164
Additions	745
At 31 March 2020	2,909
Accumulated amortisation	
At 1 April 2019	1,155
Charge for year	891
At 31 March 2020	2,046
Net book value	
At 31 March 2020	863
At 31 March 2019	1,009

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.

12. Tangible fixed assets

	Assets under construction £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2019	18,175	28,063	46,238
Additions	15,284	35,239	50,523
At 31 March 2020	33,459	63,302	96,671
Accumulated depreciation			
At 1 April 2019	-	10,722	10,722
Charge for year	-	14,398	14,398
At 31 March 2020	-	25,120	25,120
Net book value			
At 31 March 2020	33,459	38,182	71,641
At 31 March 2019	18,175	17,341	35,516

13. Stocks

	2020 £'000	2019 £'000
Spare parts and consumables	5,512	4,576

14. Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade debtors	31,587	72,222
VAT	13,680	18,420
Other debtors	44,648	45,265
Prepayments and accrued income	44,356	39,140
	134,271	175,047

15. Cash at bank and in hand

	2020 £'000	2019 £'000
Bank deposits	250,258	226,896

Cash and cash equivalents include ring-fenced cash of £244.9m (2019: £217.6m). Under the terms of the franchise agreement, the Company can only distribute cash either up to the amount of retained profits or the amount determined by prescribed liquidity ratios. The ring-fenced cash represents that which is not available for distribution or the amount required to satisfy the liquidity ratios at the balance sheet date.

16. Creditors:

Amounts falling due within one year	2020 £'000	2019 £'000
Trade creditors	46,656	56,292
Amounts owed to group undertakings	36,636	28,172
Other tax and social security	6,799	5,604
Other creditors	106,956	127,623
Accruals and deferred income	233,980	177,168
	431,027	394,859

During the current year no further subordinated loans (2019: £40m) were drawn down. These are interest-bearing loans, with a fixed rate of 5.5% per annum and no repayment schedule. Amounts included within owed to group undertakings include the loan from FirstGroup plc (70%), £28m and included within other creditors include the loan from MTR Corporation Limited (30%), £12m.

A £30m agreed funding commitment (AFC) has been provided by the shareholders since the commencement of the franchise. This is an interest-bearing loan, with a fixed rate of 5.5% per annum, with annual repayments commencing in year ending 31 March 2021 and completing in year ending 31 March 2023. Amounts included within owed to group undertakings relates to the AFC loan from FirstGroup plc (70%), £7.0m (2019: £nil) and included within other creditors relates to the AFC loan from MTR Corporation Limited (30%), £3.0m (2019: £nil).

16. Creditors (continued)

Amounts falling due after more than one year	2020 £'000	2019 £'000
Amounts owed to group undertakings	14,000	21,000
Capital deferrals and capital grant receipts	48,980	-
Other creditors	6,000	9,000
	68,980	30,000

Amounts owed to group undertakings relates to the AFC loan from FirstGroup plc (70%), £14.0m (2019: £21.0m) and included within other creditors the AFC loan from MTR Corporation Limited (30%), £6.0m (2019: £9.0m).

The components of capital deferrals and capital grant receipts will not be released to the profit and loss account prior to the end of the next financial year.

17. Provisions for liabilities and charges

Amounts falling due within one year	Other £'000	Contract Provision £'000	Total £'000
At 1 April 2019	(1,551)	(77,086)	(78,637)
Charged to the profit and loss account	(1,757)	(1,053)	(2,810)
Utilised in the year	1,551	52,793	54,344
Transfer from provisions greater than one year	-	(68,814)	(68,814)
At 31 March 2020	(1,757)	(94,160)	(95,917)

Amounts falling due after more than one year	Other £'000	Contract Provision £'000	Total £'000
At 1 April 2019	-	(68,814)	(68,814)
Charged to the profit and loss account	-	-	-
Transfer to provisions less than one year	-	68,814	68,814
At 31 March 2020	-	-	-

The Company receives claims from customers and employees for incidents resulting in personal injury. A provision is made for the estimated cost to the Company to settle claims for incidents that fall below the insurance deductible.

The onerous contract provision has been established based on updated financial forecasts for this franchise until the initial franchise end date of 17 August 2024. The updated forecasts are based on a number of assumptions, most significantly passenger revenue growth and the impact of Central London Employment and Gross Domestic Product revenue mechanisms, as well as the impact of changes in timetables, capacity and rolling stock. In addition, the effects of infrastructure performance and the ongoing effect from industrial action during the year continue. There is considerable uncertainty about the future impact of the industrial action and the level

First MTR South Western Trains Limited

Notes to the financial statements (continued)
Year ended 31 March 2020

17. Provisions for liabilities and charges (continued)

of strike amelioration receivable from the DfT, and we remain in discussions with the DfT. Based on these forecasts the Company considers it has an onerous contract, the value of which is estimated to be £147.0m (2019: £145.9m), of which £52.8m has been utilised in the year. Accordingly, £1.1m (2019: £145.9m) has been charged to the profit and loss account.

Whilst the onerous contract provision is based upon management's current best estimate, there can be no certainty that actual results will be consistent with those forecasts. The provision is sensitive to the underlying assumptions, most notably to passenger revenue growth and to the extent or timing of impacts from strikes and the recovery of amelioration from the DfT. The £147.0m provision comprises £87.4m parent company support, £16.1m performance bond, £30m agreed funding commitments and £13.5m of retained earnings, which represents the maximum unavoidable loss under the franchise agreement. These factors make it impractical to provide a sensitivity analysis on one single measure and its impact on the onerous contract provision.

18. Called up share capital

	2020 £	2019 £
Authorised		
70 "A" ordinary shares of £1 each	70	70
30 "B" ordinary shares of £1 each	30	30
Allotted, called up and fully paid		
70 "A" ordinary share of £1 each	70	70
30 "B" ordinary share of £1 each	30	30

The A and B ordinary shares of £1 each rank pari passu in respect of entitlements to the profits of the Company and on a return of capital. They do not confer any rights of redemption. First Rail Holdings Limited is the holder of the "A" ordinary shares and MTR Corporation (UK) Limited is the holder of the "B" ordinary shares.

19. Commitments

Capital commitments

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

	2020 £'000	2019 £'000
Contracted for but not provided	33,362	8,500

Capital commitments relate to tangible fixed assets, primarily fleet depot works and station improvement programmes. Commitments have increased on last year due to increased activity on key projects such as Feltham and Fratton depots.

19. Commitments (continued)

Operating leases

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

	2020	2019
	£'000	£'000
Within one year	262,741	325,147
In the second to fifth years inclusive	851,969	1,120,901
After five years	1,315	210,392
	1,116,025	1,656,440

Included in the above commitments within one year are contracts held with Network Rail for access to the railway infrastructure track, stations and depots of £121.6m (2019: £119.9m). Commitments also exist to lease rolling stock of £139.5m (2019: £196.2m).

20. Contingent liabilities

The Company is party to legal proceedings and claims which arise in the normal course of business. The Company takes legal advice as to the likelihood of success of claims and counterclaims. No provision is made where, due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings can be determined.

On 26 February 2019, collective proceedings were commenced in the UK Competition Appeal Tribunal (CAT) against the Company. Equivalent claims have been bought against Stagecoach South Western Trains and London & South Eastern Railway. It is alleged that the Company and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for TfL Travelcard holders wishing to travel outside TfL fare zones. The first substantive hearing, at which the CAT will decide whether or not to certify the collective proceedings, has been postponed pending the outcome of an appeal to the Supreme Court in a different collective proceedings and is therefore unlikely to occur until early 2021 at the earliest. It is not possible at this stage to determine accurately the likelihood or quantum of any damages and costs, or timings of such damages and costs, which may arise from the proceedings.

FirstGroup plc (70%) and MTR Corporation (30%) have provided performance bonds of £16.1m (2019: £15m) backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the Company.

FirstGroup plc and MTR Corporation Limited have provided support in the form of a 70:30 split subordinated loan facility totalling £87.4 m (2019: £87.4m), 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 16, £40m of this loan facility was drawn down during the year to 31 March 2019 with an outstanding balance of £40m at 31 March 2020 (2019: £40m).

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 FirstGroup plc, 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. Pensions liability

Railways Pension Scheme – South Western Railway (including Island Line) sections

Defined contribution schemes
The Company operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the profit and loss in the period ended 31 March 2020 was £0.5m (2019: £0.5m).

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

Under the terms of the RPS the employer (60%) and the employees (40%) share any fund deficit. The current service pension cost relating to this scheme in the year was £13.3m. (2019: £11.5m).

The Company's responsibility is to pay the contributions following triennial funding valuations whilst it operates the franchise. These contributions are subject to change on consideration of future statutory valuations. In addition, at the end of the franchise, any deficit or surplus in the scheme section passes to the subsequent franchisee with no compensating payments from or to the outgoing franchise holder.

The scheme is valued triennially, when the cost of the future service is calculated and the funding position established. The last valuation of the scheme was carried out by independent actuaries as at 31 December 2013 by James C Wintle in respect of the costs used in these financial statements. A draft actuarial valuation at 31 December 2016 was completed during 2017 and there was a legal obligation to finalise the valuations and schedules of contributions before the statutory deadline of 31 March 2018. Discussions with the Pensions Regulator, and other stakeholders, in relation to the Pensions Act valuation for all Railway Pensions Schemes for the Train Operating Companies are still ongoing and this process is likely to continue for some time. Until the valuation is complete, the investment strategy and the cash contributions remain unchanged from those agreed as part of the 2013 valuation. The 2019 valuation is progressing and has been updated for 31 March 2020; at this date the market value of the scheme's assets totalled £915.8m (2019: £911.1m). The actuarial value of these assets was sufficient to cover 65% (2019: 60%) 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 8.04% (2019: 8.04%) for employees and 12.06% (2019: 12.06%) for the employer.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered under FRS 102. The contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under FRS 102 and the Company does not account for uncommitted contributions towards its current or expected future deficits. Therefore, the Company does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with staff members. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions. The franchise adjustment on the balance sheet date reflects the extent to which the Company is not currently committed to fund the deficit.

The actuarial assumptions used in determining the last full actuarial valuation (31 December 2013) were that the rate of return on investments will be 7.59% per annum; the rate of earnings increase will be 4.23% per annum and the rate of inflation will be (RPI/CPI) 3.2% / 4.2% per annum. The valuation was made using the projected unit method.

21. Pensions liability (continued)

Financial assumptions

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

	2020	2019
Rate of increase in salaries	2.75%	3.40%
Rate of increase of pensions in payment	1.80%	2.15%
Rate of increase of pensions in deferment	1.80%	2.15%
Discount rate	2.40%	2.40%
Inflation assumption – RPI	2.50%	3.15%
Inflation assumption – CPI	1.80%	2.15%

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. The post-retirement mortality (life expectancy in years) current rate for pensioners at 65 is 21.1 years (2019: 21.1 years). Future pensioners at aged 65 (45 now), will have a rate of 22.3 years (2019: 22.3 years). There has been no change in these rates over the last 12 months.

Asset investments

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

	2020 £'000	2019 £'000
Equities	76,000	72,800
Property	11,200	13,400
Cash and cash equivalents	9,100	2,300
Other return seeking assets	819,400	822,600
	915,700	911,100

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 to deliver high long term real returns (RPI + 4% pa) over a rolling 5 to 10 year period.

The value of private/illiquid assets held by the Railways Pension Scheme and included in these statements include 31 December 2019 assets totalling £186m which have been adjusted for cash inflows and outflows to 31 March 2020. Applying any form of adjustment to these assets is highly subjective and, in any case, would have a negligible impact on the deficit due to the shared cost and franchise adjustments applied. As such we have retained the valuations provided directly by the investment manager. As a result, the actual assessed value of those assets as at 31 March 2020 may differ from the figure reported in these accounts.

21. Pensions liability (continued)

Reconciliation of movements:

	Assets £m	Liabilities £m	Shared Cost £m	Franchise Impact £m	Net £m
At 1 April 2018	**824.6**	**(1,295.3)**	**188.2**	**282.5**	**-**
Profit and loss account					
Operating					
Service cost	-	(51.9)	20.5	19.9	(11.5)
Admin cost	-	(6.4)	2.6	-	(3.8)
Past service gain including curtailments		(1.4)	0.6	0.8	-
Total Operating	**-**	**(59.7)**	**23.7**	**20.7**	**(15.3)**
Financing	**22.2**	**(34.3)**	**4.8**	**7.3**	**-**
Total Income Statement	**22.2**	**(94.0)**	**28.5**	**28.0**	**(15.3)**
Amounts paid to/from scheme					
Employer contributions	14.8	-	(6.0)	6.0	14.8
BRASS matching contributions	0.5	-	-	-	0.5
Employee contributions	9.9	-	(3.9)	(6.0)	-
Benefits Paid	(34.4)	34.4	-	-	-
Total	**(9.2)**	**34.4**	**(9.9)**	**-**	**15.3**
Expected closing position	**837.6**	**(1,354.9)**	**206.8**	**310.5**	**-**
Gains/loss					
Change in financial assumptions	-	(126.6)	50.6	76.0	-
Change in demographic	-	(24.5)	9.8	14.7	-
Return on assets in excess of discount rate	73.5	-	(29.4)	(44.1)	-
Experience	-	(4.6)	2.0	2.6	-
Total	**73.5**	**(155.7)**	**33.0**	**49.2**	**-**
At 31 March 2019	**911.1**	**(1,510.6)**	**239.8**	**359.7**	**-**

21. Pensions liability (continued)

Reconciliation of movements:

	Assets	Liabilities	Shared Cost	Franchise Impact	Net
	£m	£m	£m	£m	£m
At 1 April 2019	**911.1**	**(1,510.6)**	**239.8**	**359.7**	**-**
Profit and loss account					
Operating					
Service cost	-	(63.0)	25.1	24.6	(13.3)
Admin cost	-	(5.5)	2.3	-	(3.2)
Total Operating	-	**(68.5)**	**27.4**	**24.6**	**(16.5)**
Financing	**21.7**	**(35.1)**	**5.3**	**8.1**	-
Total Income Statement	**21.7**	**(103.6)**	**32.7**	**32.7**	**(16.5)**
Amounts paid to/from scheme					
Employer contributions	16.5	-	(6.6)	6.6	16.5
Employee contributions	11.0	-	(4.4)	(6.6)	-
Benefits Paid	(40.5)	40.5	-	-	-
Total	**(13.0)**	**40.5**	**(11.0)**	-	**16.5**
Expected closing position	**919.8**	**(1,573.7)**	**261.5**	**392.4**	-
Gains/loss					
Change in financial assumptions	-	150.2	(60.1)	(90.1)	-
Return on assets in excess of discount rate	(4.1)	-	1.6	2.5	-
Experience	-	5.2	(2.0)	(3.2)	-
Total	**(4.1)**	**155.4**	**(60.5)**	**(90.8)**	-
At 31 March 2020	**915.7**	**(1,418.3)**	**201.0**	**301.6**	-

22. Related parties

MTR Corporation Limited, a company registered in Hong Kong, has a 30% non-controlling interest in the Company. MTR Corporation Limited provided an AFC and a subordinated loan (note 16). Interest on these loans is charged on an arm's length basis and in accordance with the franchise agreement. MTR Corporation Limited provided no other services in the year. As at 31 March 2020 the Company owed MTR Corporation Limited £21.8m (2019: £21.2m).

MTR (UK) Limited, a company registered in England and Wales, and a wholly owned subsidiary of MTR Corporation Limited, provided services totalling £0.9m (2019: £0.9m) during the year. As at 31 March 2020 the Company owed MTR (UK) Limited £nil (2019: £nil). No services were provided by MTR Corporation Limited during the year (2019: £nil).

Notes to the financial statements (continued)
Year ended 31 March 2020

23 Post balance sheet events

The Emergency Measures Agreement (EMA), effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The EMA has been replaced with an Emergency Recovery Measures Agreement (ERMA) that continues until 31 March 2021 and after this date it is anticipated that there will be either an extension of the ERMA for a further 6 months at the discretion of the DfT (as expressly set out and permitted by the ERMA terms) or completion of discussions on a transition to a directly awarded management contract which would not be expected to carry revenue or cost risk.

Coronavirus continues to have an adverse impact on both the rail industry and the wider economy of the United Kingdom. Until there is a vaccine available it appears that these impacts will continue. In the meantime, the Company continues to look at ways of safely mitigating the risks of Coronavirus to our passengers, employees and our shareholders.

24. Ultimate parent company

The directors regard FirstGroup plc, a company incorporated in Great Britain 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 entity is First Rail Holdings Limited.

Copies of the accounts of FirstGroup plc can be obtained on request from 8th Floor, The Point, 37 North Wharf Road, Paddington, London, W2 1AF.