

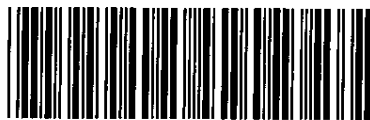
Company Registration No. 07900320

FIRST MTR SOUTH WESTERN TRAINS LIMITED

Annual Report and Financial Statements

For the Year ended 31 March 2022

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First MTR South Western Trains Limited

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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

In the year under review the company operated under the Emergency Recovery Measures Agreement (“ERMA”) which ended at 01:59 on 30 May 2021. The ERMA was an addition to and worked with the South Western Franchise Agreement dated 7 April 2017 (“Franchise Agreement”). At 02:00 on 30 May 2021 the business entered into the National Rail Contract (“NRC”) with the Department for Transport. The NRC is a 2-year contract confirmed to 28 May 2023 with an optional extension period of 2 years to 24 May 2025 callable at the Department for Transport’s (“DfT”) discretion.

The Company operates passenger rail services on some of the busiest routes in the country. 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 increased to £982.2m (2021: £968.5m), passenger volumes increased by 128% (2021: fell by 77%) and passenger receipts increased by 195.5% (2021: decreased by 81.4%) over the year (2022: £553.0m versus 2021: £187.1m). At the close of the year passenger volumes had returned to 68% of pre pandemic volumes (54% of peak and 98% of off peak pre pandemic volumes). Coronavirus restrictions were eased during the financial year, however, we have noticed post easement that travel patterns are different to those seen pre pandemic with commuters utilising our services on average fewer days per week. Net subsidy received from the DfT reduced to £375.0m (2021: £753.9m).

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

Under the NRC, SWR has increased its service offering back up to 85% of pre pandemic service levels. Our service offering is currently balancing customer demand and capacity. Peak capacity provision at the close of the financial year was matching existing customer demand. We are working towards the introduction of the Arterio fleet which will provide improvements in our customer experience across our suburban network and increase our capacity provision, enabling us to continue matching capacity with our expected growth in demand.

The business also used 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 remain responsible partners with our customers and communities, and we work with community organisations across the network.

The Company has continued its focus on working closely and collaboratively with the DfT, Network Rail and other industry partners to deliver improvements to performance and reliability and better customer experiences to drive sustainable patronage growth. An example of this is the close and frequent dialogue undertaken in connection with agreement of local marketing campaigns, that align to national frameworks, formed within accepted budgetary constraints, whilst appropriately recognising the geographic and demographic uniqueness of our railway, leading to improved rates of revenue and patronage recovery. Further examples include the early delivery and completion of Business Plan Commitments in connection with DfT and Network Rail collaboration, leading to earlier benefits realisation. Our ongoing close working with Network Rail has continued to deliver local and wider industry benefits. Examples of this include the well-established frameworks for joint decision making governed through our Alliance Governance Board and shared joint Executive meetings. During recent industrial action, these frameworks came into their own, ensuring delivery of a contingency train service for our customers and stakeholders

Key initiatives in the year revolved around the delivery of continuing provisions from the previous contract, and new obligations from the new forms of agreement under the National Rail Contract (NRC), and other enhancements, including:

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Strategic report (continued)

Business review (continued)

- Installation of LED lighting at Farnham Depot
- New walkway, lighting and hop ups at Yeovil Junction Depot
- Waiting rooms refreshed and toilets upgraded at 10 stations
- Eight new automatic doors at stations installed
- Water saving plumbing installations at 22 locations
- The development of a network of Mental Health First Aiders
- Development of a Joint Relationship Management Charter and a safeguarding strategy with BTP
- The introduction of Flexi Season tickets and the simplification of Super Off Peak

We 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 remained unwavering. Our approach to safety focussed on innovative technology, external assurance and our behavioural change programme, Be Safe, all of which made further progress in the year.

The Company made an operating profit for the year of £12.2m (2021: profit of £30.1m). The operating profit decreased because a credit of £14.6m in respect of release of the onerous contract provision charged in previous years that was recognised in 2021 was not repeated. This onerous contract provision was created in the year ended 31 March 2019 for the estimated losses under the Franchise Agreement. At 31 March 2022 the Company was in a net asset position of £14.9m (2021: net liability of £104.5m), this improvement is as a result of the waiver by First Group and MTR of the parent company support facility funding advanced under the Franchise Agreement of £119.3m (Note 17).

Current trading and the future

The Company successfully negotiated a new National Rail Contract “NRC” which commenced on 30 May 2021. The NRC replaced the ERMA and the Franchise Agreement. The agreement of the Termination Sums and the NRC extinguished materially all the liabilities that SWR had with the Department for Transport under the Franchise Agreement.

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

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

In June 2021 the Associated Society of Locomotive Engineers and Firemen (“ASLEF”), Unite the Union (“UNITE”), Transport Salaried Staffs’ Association (“TSSA”), National Union of Rail, Maritime and Transport Workers (“RMT”), the TOCs and Network Rail committed to the Rail Industry Recovery Group (“RIRG”) Enabling Framework Agreement. This Enabling Framework Agreement comprises a series of 5 principles each with key areas of focus to create a programme of reforms that will drive rail recovery, modernisation, and transition to deliver a safe, secure and sustainable future for the rail industry giving more employment security for those who continue to work within it. It also offers the opportunity to discuss new ways of working across the industry to facilitate cross employer arrangements, taking into account relevant legal requirements and develop approaches to resolve industry-wide problems that deliver a sustainable railway for passengers and employees.

The Enabling Framework Agreement will focus on 5 principles and associated key areas of focus:

1. Employment Security Measures
2. Investing in People
3. Modern and Inclusive Workforce

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Strategic report (continued)

Current trading and the future (continued)

4. *Revising Working Arrangements and Practices*
5. *Enhanced Ways of Working*

Development of and delivery of the activities under these workstreams will be a key focus for the business in forthcoming financial year.

In October 2021 in recognition of the need to address efficiencies and cost savings required to ensure the sector's long-term financial and operational sustainability the RIRG developed an industry wide voluntary severance scheme ("VSS") in accordance with the EFA. The last of the individuals that were successful in their application for VSS left the business in February 2022.

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

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

SWR has generated satisfactory returns despite challenging recent industry conditions, and we are focused on working with our industry partners to deliver better customer experiences, which will in turn result in passengers returning to the railway. We continue to work closely with Network Rail, the DfT, local authorities and all industry partners to deliver projects while minimising disruption for passengers.

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.

Our priorities and outlook

The company remains focused on working with industry partners to deliver plans for more capacity and better customer experiences, which in turn will drive patronage growth over time, along with working with the DfT to support the recovery from the impacts of the coronavirus pandemic.

There are uncertainties as to how rapidly demand will recover. There are headwinds facing the business which have the potential to materially impact the speed and shape of the recovery, these include;

- The highest level of inflation for 40 years increasing the cost of living which is expected to affect customer behaviour especially discretionary leisure travel.
- The impact of the Coronavirus Pandemic on customer behaviours and travel patterns continues and its impact on the recovery of the wider economy and the areas in which we operate is yet to be fully revealed.
- The impact from the outcome of activities to be undertaken under the Enabling Framework Agreement ("EFA") is not yet known.
- The scale and volume of industrial action will have a material impact on our business and our customers return to our services.

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Strategic report (continued)

Our priorities and outlook (continued)

Whilst the Coronavirus Pandemic, inflation and EFA have brought new, significant challenges, the NRC provides a contractual mechanism that provides mitigations against the impact of these and a number of other factors affecting the performance of our contract, including infrastructure reliability, timetabling delays and industrial action. The agreement of the NRC provides security to the business and cemented the ability of the business to continue to operate as a going concern.

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

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.

We have completed significant infrastructure improvements for the Isle of Wight's railway to allow for regular service patterns and smoother journeys and new Class 484 trains entered service on the island in late 2021.

At stations we are continuing to deliver new and upgraded customer information screens, improved waiting and interchange facilities and free Wi-Fi.

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

Going concern

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

Background for going concern

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

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

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

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

- the longer-term impact of Coronavirus on customers travels patterns and the recovery of the UK economy;
- the potential impacts on financial and trading performance of the risks held by First MTR South Western Limited under the NRC;
- the protection provided within the National Rail Contract;

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Strategic report (continued)

Going concern (continued)

- the assumption that the DfT's contractual right to extend the NRC with the company will be enacted, and
- the timing of working capital flows.

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

FirstGroup plc and MTR Corporation Limited provided the Company with funding to meet the terms of the agreed termination fee which was settled on 2 June 2021. The agreement of the Termination Sums and the NRC extinguishes materially all of the liabilities that First MTR South Western Railway Limited has with the Department for Transport under the Franchise Agreement.

The owning groups continue to provide support for the contingent capital liabilities remaining under the NRC. The directors have made enquiries and note that the FirstGroup plc 2022 Annual Report and Accounts state that no material uncertainties 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 2022 Annual Report and Accounts). This has been taken into account in the going concern assessment for the Company.

Going concern statement

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

Key performance indicators

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

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

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

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

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

Under the NRC SWR can earn a Performance Based Fee based upon scoring against quantitative and qualitative scorecard measures. The performance-based fee is across five areas: Operational Performance, Customer Satisfaction, Service Quality, Finance and Business Management, with each area being split into one or more subcomponents. Operational Performance is a quantitative measure and is split into 6 subcomponents. Customer Satisfaction, Service Quality, Finance and Business Management are scored against a qualitative scorecard measure. The performance fee paid to the operator depended on the qualitative scoring in each area where the operator was graded a 1, 2 or 3, 3 being the maximum fee level.

The key non-financial performance indicators are as follows:

Train operating performance was above targeted levels in 2021/22 with our industry standard public performance measure (PPM) moving average score standing at 90.1% (2021: 94.0%). PPM is determined by the number of trains which arrive at destinations within the individual train operating company benchmark target.

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Strategic report (continued)

Key performance indicators (continued)

Transport Focus usually conduct a National Rail Passenger Survey ("NRPS") every Spring & Autumn Survey, however due to the pandemic and a significant drop in the numbers of people using public transport, NRPS has been paused. In the Spring 2020 survey we achieved 75% customer satisfaction against a target of 78%. NRPS is not going to continue and instead a customer satisfaction survey (as yet unbranded / unnamed) will replace both but this is not expected to be in place until the Summer 2023 (based on the latest timetable from Rail Delivery Group, DfT, and Great British Railways Transition Team). There will be a 'transitional' survey in place until the new survey is introduced but timing has yet to be communicated.

The Company's average headcount in the year increased to 5,395 (2021 restated: 5,356), an increase of 0.7%.

Passenger volume increased by 128% as noted in the Business Review on page 2.

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.

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

Coronavirus

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

- Our first priority from the start of the Coronavirus outbreak was the health and safety of our passengers, employees, and the communities in which we operate. We, in conjunction with FirstGroup plc, took rapid action to apply the advice of governments and health authorities, including implementing additional cleaning regimes and the provision of advice to passengers. At the same time, steps were taken to ensure that we could continue to provide essential transport services so that key workers and people who needed to travel could still do so safely;
- We worked closely with our suppliers to ensure we had the appropriate equipment in place, in line with relevant public health authority guidance for our operations. We followed, and in some cases developed, best practise in areas such as the cleaning and decontamination of trains, stations, depots and offices; and
- The government put in place comprehensive emergency measures, in order to maintain continuity of critical rail services. The signing of the EMA, ERMA and subsequently the NRC has led to additional regulatory reporting requirements and communication of the requirements to those within the business who are responsible for ensuring compliance.

Contractual agreements with the DfT

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

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Strategic report (continued)

Contractual agreements with the DfT (continued)

management. Failure to manage these risks adequately in accordance with our plans could result in financial and reputational risk to the Company.

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

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 plc actively engages with the relevant bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes.

Customer service

Our fees 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 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

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

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Strategic report (continued)

Pension scheme funding (continued)

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

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

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

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

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

Employee costs, relations, recruitment and retention

Labour costs represent a significant component of the Company's operating costs. Labour shortages, or low unemployment rates, could hinder the Company's ability to recruit and retain qualified employees 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.

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 claim 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.

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.

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Strategic report (continued)

Disruption to infrastructure/operations (continued)

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.

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 Limited)
- 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.

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

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Strategic report (continued)

Companies Act 2006 Section 172 statement (continued)

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

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

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

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

First MTR South Western Trains Limited

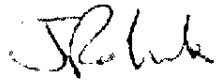
Strategic report (continued)

Companies Act 2006 Section 172 statement (continued)

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

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

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



J Roberts
Director

28 July 2022

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

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 2022.

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
A King
S Murphy
C Mann
J Roberts

There were no director appointments or resignations during the year.

Donations

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

Statement of corporate governance arrangements

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

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

The Code contains to a substantial extent principles and provisions that are concerned with the listed parent company only and which are therefore not applicable to the Company. These particular principles and provisions of the Code are applied by FirstGroup plc on a comply or explain basis. They relate, for example, to the role of the FirstGroup plc board in engaging with shareholders, processes for board appointments, succession and evaluation, director remuneration and the role of the board's audit committee. Given the nature of the Company, as a wholly owned subsidiary with no external shareholders, these elements of the Code are not applicable and so were not applied by the Company.

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

First MTR South Western Trains Limited

Directors' report (continued)

Subsidiary level governance framework

The Board is comprised of 9 directors and their role is to:

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

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

Disabled persons

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

Financial risk management objectives and policies

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

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

First MTR South Western Trains Limited

Directors' report (continued)

Financial risk management objectives and policies (continued)

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. 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, the successful negotiation and agreement to enter into the NRC has removed the material uncertainty that existed in the 31 March 2020 accounts. The NRC contract secures the continuing operations of the business and the provision of passenger services through First MTR South Western Trains Limited.

Financial matters

The results for the year are given in the profit and loss account on page 20.

£12.9m of dividends were declared and paid during the year (2021: £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

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

Coronavirus continues to have an adverse impact on both the rail industry and the wider economy of the United Kingdom. SWR continues to look at ways of safely mitigating the risks of coronavirus to our passengers, employees and our shareholders.

For further details please refer to note 24.

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, record levels of inflation, industrial action, and implementation of the EFA 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.

Auditors' 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 auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418(2) of the Companies Act 2006.

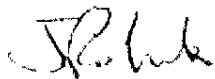
First MTR South Western Trains Limited

Directors' report (continued)

Independent Auditors

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

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



J Roberts
Director

28 July 2022

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

First MTR South Western Trains Limited

Statement of directors' responsibilities in respect of the financial statements

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

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

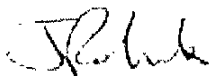
Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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



J Roberts
Director

28 July 2022

First MTR South Western Trains Limited

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

Report on the audit of the financial statements

Opinion

In our opinion, First MTR South Western Trains Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 10 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

First MTR South Western Trains Limited

- reviewing management's forecasts for the period to 31 March 2024 and the key assumptions underlying the forecasts;
- reviewing the new National Rail Contract entered into with the DfT with effect from 30 May 2021 to understand the committed and contracted support that will be provided by the DfT;
- reviewing the appropriateness of the directors' assumption that there is a reasonable expectation that the existing NRC will be extended by the DfT such that there is a NRC in place for at least 12 months from the date of approval;
- reviewing the disclosures within the financial statements to confirm that the going concern key assumptions are adequately disclosed by the directors.

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic report and Directors' Report

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

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

First MTR South Western Trains Limited

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Reviewing meeting minutes of management, board of directors and any other committees of the board;
- Reviewing the claims provision in respect of actual and potential claims and making enquiries of management regarding any unprovided claims;
- Obtaining supporting evidence for the significant assumptions and judgements made by management, particularly in respect of pensions accounting, contract and franchise accounting, dilapidations and performance fee;
- Identifying and testing journal entries on a sample basis, in particular those used to recognise revenue; and
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

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

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

First MTR South Western Trains Limited

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
28 July 2022

First MTR South Western Trains Limited

Profit and Loss Account

For the Year ended 31 March 2022

| | | 2022 £'000 | Restated 2021 £'000 |
|--|------|---------------|---------------------------|
| | Note | | |
| Turnover | 2 | 982,240 | 968,490 |
| Operating costs | | | |
| - General* | 3 | (1,023,149) | (971,645) |
| - Exceptional income | 4 | - | 14,567 |
| Total operating costs* | | (1,023,149) | (957,078) |
| Other operating income* | 5 | 53,155 | 18,684 |
| Operating profit | | 12,246 | 30,096 |
| Interest receivable and similar income | 9 | 22 | 1,357 |
| Interest payable and similar expenses | 9 | (3) | - |
| Net interest receivable | | 19 | 1,357 |
| Profit before taxation | 10 | 12,265 | 31,453 |
| Tax on profit | 11 | 646 | (2,534) |
| Profit for the financial year | | 12,911 | 28,919 |

* Details of restatement are disclosed in Note 5.

First MTR South Western Trains Limited

Statement of comprehensive income

For the Year ended 31 March 2022

| | £'000 | 2022 £'000 | £'000 | 2021 £'000 |
|--|-----------|---------------|----------|---------------|
| Profit after tax for the financial year | | 12,911 | | 28,919 |
| Items that will not be reclassified subsequently to the profit and loss account: | | | | |
| Actuarial gain/ (loss) to scheme assets and liabilities (note 23) | 269,900 | | (28,700) | |
| Actuarial (loss)/ gain due to rail franchise adjustment (note 23) | (269,900) | | 28,700 | |
| Total other comprehensive income for the year | | - | | - |
| Total comprehensive income for the year | | 12,911 | | 28,919 |

First MTR South Western Trains Limited

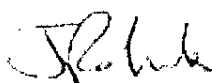
Balance Sheet

As at 31 March 2022

| | Note | £'000 | 2022 £'000 | £'000 | 2021 £'000 |
|--|------|-----------|-----------------|----------------|------------------|
| Fixed assets | | | | | |
| Intangible assets | 12 | | 504 | | 437 |
| Tangible assets | 13 | | 99,975 | | 131,154 |
| | | | <u>100,479</u> | | <u>131,591</u> |
| Current assets | | | | | |
| Stocks | 14 | 3,211 | | 3,742 | |
| Debtors | 15 | 140,013 | | 205,139 | |
| Cash at bank and in hand | 16 | 113,305 | | 183,006 | |
| | | | <u>256,529</u> | <u>391,887</u> | |
| Creditors: amounts falling due within one year | 17 | (317,926) | | (535,778) | |
| Provisions for liabilities: amounts falling due within one year | 18 | (7,424) | | (1,366) | |
| Net current liabilities | | | <u>(68,821)</u> | | <u>(145,256)</u> |
| Total assets less current liabilities | | | <u>31,658</u> | | <u>(13,665)</u> |
| Creditors: amounts falling due after more than one year | 17 | | (8,925) | | (90,795) |
| Provisions for liabilities: amounts falling due after one year | 18 | | (7,850) | | - |
| Pension liability | 23 | | - | | - |
| Net assets/(liabilities) | | | <u>14,883</u> | | <u>(104,460)</u> |
| Capital and reserves | | | | | |
| Called up share capital | 19 | | - | | - |
| Profit and loss account | | | <u>14,883</u> | | <u>(104,460)</u> |
| Total shareholders' funds/(deficit) | | | <u>14,883</u> | | <u>(104,460)</u> |

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

The financial statements of First MTR South Western Trains Limited, (registered number 07900320), on pages 22 to 49 were approved by the Board of Directors on 28 July 2022 and were signed on its behalf by:



J Roberts
Director

First MTR South Western Trains Limited

Statement of changes in equity

Year ended 31 March 2022

| | Called up share capital £'000 | Profit and loss account £'000 | Total Equity £'000 |
|---------------------------------|--|--|-----------------------------------|
| Balance at 1 April 2020 | - | (133,379) | (133,379) |
| Profit after tax for the year | - | 28,919 | 28,919 |
| Balance at 31 March 2021 | - | (104,460) | (104,460) |
| Profit after tax for the year | - | 12,911 | 12,911 |
| Dividends paid (note 20) | - | (12,897) | (12,897) |
| Capital Contribution (note 17) | - | 119,329 | 119,329 |
| Balance at 31 March 2022 | - | 14,883 | 14,883 |

First MTR South Western Trains Limited

Notes to the financial statements Year ended 31 March 2022

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 8th Floor, The Point, 37 North Wharf Road, London, United Kingdom, W2 1AF.

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

(b) Basis of preparation

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

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available 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

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

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

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

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

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

- the levels of fiscal and financial support has been agreed up until 31 March 2023 at which point the financial support is reset based upon agreement of the annual business plan;
- contractual support has been agreed through agreement of the NRC this provides a 2 year contract with the DfT's option to extend for a further 2 years until 23 May 2025;

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

1. Principle accounting policies (continued)

- whilst significant uncertainty remains over passenger volumes recovery, this risk is no longer borne by the Company, under the NRC contract the DfT bears all revenue risk;
- the contractual payment mechanism is set out and has been agreed in the NRC. This gives the Company greater certainty and foresight in respect of the timing of cash flows, including movements in working capital and the timing of receipts of contractual and fiscal support;
- the value and agreement of the termination fee for the Franchise Agreement as set out within the ERMA has been agreed and was settled on 2 June 2021; and
- the parent company support and bonding requirements under the NRC are significantly lower than those offered under the Franchise Agreement.

Parent Company Support Waiver

During the year FirstGroup plc and MTR Corporation Limited agreed to waiver and subsequently cancel the loan facilities. The accounting for the waiver of both loans above has been determined based on the economic substance of the transaction following the rules under FRS 102 para 10.4(b)(ii). The PCS and AFC loan waivers described above arise from both SWR's ultimate parents (FirstGroup plc and MTR) acting as parents/shareholders. It is therefore deemed that the substance of the loan waivers is as capital contribution from both parents and therefore accounted in SWR's equity, with no gains or loss being recognised. This has resulted in the Company moving into a net asset position of £14.9m (2021: net liability £104.5m).

Statement on NRC Extension

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

Going concern statement

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

Accordingly, the financial statements have been prepared on a going concern basis.

(d) **Intangible 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 contract. Our amortisation policy is as follows:

| | |
|-------------------|---|
| Computer Software | - 3 to 5 years straight-line/duration of contract |
|-------------------|---|

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

Assets under construction

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

First MTR South Western Trains Limited

Notes to the financial statements (continued)

Year ended 31 March 2022

1. Principle accounting policies (continued)

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

(e) Tangible 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 contract. Our depreciation policy is as follows:

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

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

Assets under construction

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

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

(f) Leases

SWR continues to account for leases under FRS 102 where all leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

(g) 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 shorter of their estimated useful economic lives or the duration of the contract. All other grants are credited to the profit and loss account as the related expenditure is incurred.

(h) Stocks

Stocks are valued at the lower of weighted average cost and net realisable value. 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.

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

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

1. Principle accounting policies (continued)

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

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

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

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

Rail Franchise adjustment

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

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

1. Principle accounting policies (continued)

(m) Turnover

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

Passenger revenue

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

Rail franchise subsidy receipts

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

Other Revenue

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

Other revenue from non-passenger receipts includes on advertising income, letting income, commission on ticket sales, rolling stock engineering services and other sundry income.

(n) Future ticket deferral

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

(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.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

1. Principle accounting policies (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.

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

(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 intangibles, 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.

1) Critical accounting judgements

Defined benefit pension arrangements

The Company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme (RPS), which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer and 40% employee.

The Company only recognises amounts in relation to its share of costs in the income statement. The RPS is partitioned into sections and the Company is responsible for the funding of these sections while it operates the franchise. At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee. At each balance sheet date, a franchise adjustment is recognised against the FRS 102 net pension asset or liability to reflect that portion expected to pass to the next franchisee. As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current franchisee.

In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the income statement, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the income statement. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the income statement, whilst changes in actuarial assumptions continue to be recognised through other

First MTR South Western Trains Limited

Notes to the financial statements (continued) **Year ended 31 March 2022**

1. Principle accounting policies (continued)

comprehensive income. The Directors consider this to be the most appropriate interpretation of FRS 102 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise.

The pension scheme retirement benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. Another key judgement is the longevity of members. We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account the scheme's characteristics. Our approach is to review these assumptions for the scheme following completion of their funding valuations, and more frequently only if appropriate to do so.

The Pension Regulator (TPR) has been in discussions with the RPS (the Scheme) regarding the long-term funding strategy of the Scheme. Whilst TPR believed that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

Useful Economic Life (UEL)

As part of the NRC contract, the UEL of all intangible and tangible assets was reviewed and adjusted to the shorter of, the original UEL or the end date of the NRC contract. Any change in the useful economic life is a change in estimate and is accounted for prospectively in the accounts.

NRC Extension

The current NRC contract runs until the end of 28 May 2023, with the DfT's option to extend for a further 2 years to 24 May 2025. The Company has taken a view that the DfT will extend the NRC contract and have based management's assessment on the Company's ability to continue as a going concern around this judgement (Going concern Page 24).

2) 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 where options exist, the life of the contract or franchise.

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

The Company has a number of contractual relationships including those with the DfT and Network Rail which given their complexity and duration can be sensitive to changes in future assumptions. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more 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 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. The Emergency Recovery Measures Agreement (ERMA) replaced the EMA from 21 September 2020 and under the ERMA all revenue and cost risk transferred to the government until 31 May 2021.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

1. Principle accounting policies (continued)

The Company entered into the NRC from 31 May 2021 at 02.00. Under the NRC the Company received a net funding from the DfT of £283.1m for 11 periods (2021: £nil). Net funding, including the management fee and performance fee, is recognised as revenue in Net subsidy received, in line with the revenue recognition policy for Net subsidy received from the DfT. Turnover received under the ERMA for the year ended March 2022 was £91.9m for 2 periods (2021: £753.8m).

Dilapidations

The Company recognises amounts in the income statement in relation to any contractual future obligation it has at the 31 March 2022. The company has two dilapidations provisions in place, Rolling stock and Station dilapidations. The transfer of future economic benefit from the Company for both these provisions is based on yielding of the assets at the end of the contract, in a condition that it was originally received.

To determine the amount of any contractual provision it is necessary to estimate future damages alongside the cost of any rectification works required. The estimation of both the forecasts 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.

Estimates are based on valuations from ROSCO's and 3rd parties on the expected cost to the company to satisfy its obligations as at 31 March 2022.

Performance fee

Under the NRC SWR can earn a Performance Based Fee based upon scoring against quantitative and qualitative scorecard measures. The performance-based fee is across five areas Operational Performance, Customer Satisfaction, Service Quality, Finance and Business Management, with each area being split into one or more subcomponents. Operational Performance is a quantitative measure and is split into 6 subcomponents. Customer Satisfaction, Service Quality, Finance and Business Management are scored against a qualitative scorecard measure. The performance fee paid to the operator depended on the qualitative scoring in each area where the operator was graded a 1, 2 or 3, 3 being the maximum fee level. Management has reviewed all relevant available information to make a reasonable estimate on the outcome of the qualitative scorecard measures.

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. During March 2020 SWR saw the introduction of the EMA / ERMA due to COVID-19. These agreements which remained in place until 30 May 2021 compensated SWR for the reduction in passenger receipts during the year, which as demonstrating in the table below was substantially reduced year on year.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

2. Turnover (continued)

| | 2022 £'000 | 2021 £'000 |
|--------------------------------------|----------------|----------------|
| Turnover can be analysed as follows: | | |
| Passenger receipts | 552,993 | 187,135 |
| Net subsidy received* | 374,978 | 753,877 |
| Other revenue | 54,269 | 27,478 |
| | <u>982,240</u> | <u>968,490</u> |

*Net Subsidy being the funding received to cover costs less revenue transferred based of the terms of ERMA and NRC contracts

3. Operating costs

| | 2022 £'000 | Restated 2021 £'000 |
|---|------------------|---------------------------|
| Hire of Rolling Stock | 117,341 | 172,075 |
| Station & track access and facilities | 147,651 | 138,450 |
| Other lease costs | 1,958 | 2,054 |
| Raw materials and consumables | 94,544 | 86,977 |
| Staff costs (note 6) | 330,461 | 312,372 |
| Other external charges* | 278,380 | 322,591 |
| Utilisation of onerous contract provision (note 18) | - | (79,593) |
| Net franchise premium payments | - | (1,297) |
| Intangible asset amortisation (note 12) | 211 | 426 |
| Tangible asset depreciation (note 13) | 52,603 | 17,590 |
| | <u>1,023,149</u> | <u>971,645</u> |

* Details of restatement are disclosed in Note 5

4. Exceptional (income) / costs

No exceptional income was credited to the profit and loss account (2021: income of £14.6m). The exceptional income recognised in 2021 was the release of the remaining contract provision which related to the profitability of the franchise contract and the forecasted losses arising from the Company's franchise and long-term contracts. This provision was released following agreement of the termination sums payable to the DfT.

| | 2022 £'000 | 2021 £'000 |
|------------------------------|---------------|---------------|
| Contract Provision (note 18) | <u>-</u> | <u>14,567</u> |

The total tax charge relating to the contract provision for the year ending 31 March 2022 was £nil (2021: charge of £2.8m).

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

5. Other operating income

| | 2022 | Restated 2021 |
|-----------------------------|--------|------------------|
| | £'000 | £'000 |
| Capital Grant amortisation* | 53,155 | 18,684 |

Other operating income represents amortisation of funds received in respect of capital projects. Capital grant income is recognised in the period in which the relevant depreciation charges are incurred.

*Prior year numbers have been restated to present the amortisation of capital grants in the profit and loss account within "Other operating income" instead of a credit to "Other external charges" in note 3 of value £18,684.

6. Employee numbers and costs

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

| | 2022 Number | 2021* Number |
|------------------|----------------|-----------------|
| Operations | 4,213 | 4,290 |
| Maintenance | 732 | 617 |
| Customer service | 152 | 145 |
| Other | 298 | 304 |
| | 5,395 | 5,356 |

* Prior year staff numbers restated to reflect Full Time Equivalents (FTEs).

The aggregate payroll costs of these persons were as follows:

| | 2022 £'000 | 2021 £'000 |
|-------------------------------|---------------|---------------|
| Wages and salaries | 282,645 | 266,427 |
| Social security costs | 28,822 | 26,584 |
| Other Pension costs (note 23) | 18,994 | 19,361 |
| | 330,461 | 312,372 |

7. Directors' remuneration

Certain directors received remuneration from FirstGroup plc, the ultimate parent company, First Rail Holdings Limited, the immediate parent company, and MTR Corporation Limited, with 30% non-controlling interest in the 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.

First MTR South Western Trains Limited

Notes to the financial statements (continued)

Year ended 31 March 2022

7. Directors' remuneration (continued)

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

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Aggregate emoluments (excluding pension contributions) | 398 | 87 |

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

Two directors were members of the Company's defined benefit scheme (2021: 2)

The emoluments of the highest paid director amounted to:

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Aggregate emoluments (excluding pension contributions) | 224 | 80 |
| Defined benefit scheme | | |
| Accrued pension at end of year | 3 | 1 |
| Accrued lump sum at end of year | 2 | 1 |

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.

8. 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. This plan was closed on the 25 September 2021.

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 £0.5m (2021: £0.5m) relating to equity-settled share-based payment transactions.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

8. Share-based payments (continued)

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| Total expense recognised in the profit and loss account | 505 | 503 |
| Contribution paid to First Rail Holdings Limited (parent company) | (505) | (503) |
| | <u>-</u> | <u>-</u> |
| Credited to shareholders' funds/(deficit) | <u>-</u> | <u>-</u> |

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

9. Net interest receivable

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| <i>Interest payable and similar charges</i> | | |
| Amounts payable to group undertakings | 3 | - |
| Bank and other interest payable | <u>-</u> | <u>-</u> |
| Interest payable and similar charges | 3 | - |
| <i>Interest receivable and similar income</i> | | |
| Amounts receivable from group undertakings | - | 327 |
| Bank interest receivable | <u>22</u> | <u>1,030</u> |
| Interest receivable and similar income | <u>22</u> | <u>1,357</u> |
| Net interest receivable | <u>19</u> | <u>1,357</u> |

First MTR South Western Trains Limited

Notes to the financial statements (continued)

Year ended 31 March 2022

10. Profit before taxation

Profit before taxation derives from the Company's principal activities within the United Kingdom.

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Profit before taxation is stated after charging/(crediting): | | |
| Auditors' remuneration | | |
| - Audit fee for the audit of the annual accounts | 319 | 278 |
| - Non-audit fee for other services | 15 | 15 |
| Cost of stock recognised as an expense | 94,544 | 86,977 |
| Rentals payable under operating leases | | |
| - plant and machinery | 117,340 | 174,128 |
| - other operating leases | 147,651 | 138,450 |
| Net rents receivable from property | (3,297) | (4,380) |

11. Tax on profit

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Current taxation | | |
| - Current year corporation tax payable | 1,172 | 2,534 |
| - Adjustment in respect of prior years | (115) | - |
| Total current taxation | 1,057 | 2,534 |
| Deferred taxation | | |
| - Origination and reversal of timing differences | 1,203 | 3,621 |
| - Recognition of previously unrecognised deferred tax assets | (2,906) | (3,621) |
| | (1,703) | - |
| Total tax charge on profit / (loss) | (646) | 2,534 |

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2021: 19%). The actual current tax charge on profit for the current and previous year differed from the profit multiplied by the standard rate of corporation tax for the reasons set out in the following reconciliation:

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

11. Tax on profit (continued)

| | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Profit/(Loss) before tax | 12,265 | 31,453 |
| Tax on Profit/(Loss) before tax multiplied by standard rate of corporation tax in the United Kingdom (19%) (2021: 19%) | 2,331 | 5,976 |
| Factors affecting charge | | |
| - Expenses not deductible for tax purposes | 44 | - |
| - Unrecognised losses | (115) | - |
| - Unrecognised temporary differences | - | 179 |
| - Utilisation of previously unrecognised losses | (2,906) | (3,621) |
| Total tax charge on profit / (loss) | (646) | 2,534 |

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

Deferred tax assets for some brought forward losses, which had previously not been recognised, have now been recognised given the current year profits and to the extent that forecast profits are now probable to offset these losses. The company has not recognised £92m of tax losses as at 31 March 2022 as there is insufficient evidence that there will be sufficient future taxable profit to be offset by that element of the losses. These losses have no expiry date.

12. Intangible assets

| | Computer Software £'000 | Assets under Construction £'000 | Total £'000 |
|---------------------------------|-------------------------------|---------------------------------------|----------------|
| Cost | | | |
| At 1 April 2021 | 2,907 | - | 2907 |
| Additions | 28 | 250 | 278 |
| Disposals | - | - | - |
| At 31 March 2022 | 2,935 | 250 | 3,185 |
| Accumulated amortisation | | | |
| At 1 April 2021 | 2,470 | - | 2,470 |
| Disposals | - | - | - |
| Charge for year | 211 | - | 211 |
| At 31 March 2022 | 2,681 | - | 2,681 |
| Net book value | | | |
| At 31 March 2022 | 254 | 250 | 504 |
| At 31 March 2021 | 437 | - | 437 |

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.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

13. Tangible assets

| | Assets under construction £'000 | Plant and equipment £'000 | Total £'000 |
|---------------------------------|---------------------------------------|---------------------------------|----------------|
| Cost | | | |
| At 1 April 2021 | 79,750 | 94,061 | 173,811 |
| Additions | 9,495 | 11,929 | 21,424 |
| Disposals | - | (6,361) | (6,361) |
| Inter-category transfer* | (58,785) | 58,785 | - |
| At 31 March 2022 | 30,460 | 158,414 | 188,874 |
| Accumulated depreciation | | | |
| At 1 April 2021 | - | 42,657 | 42,657 |
| Charge for year | - | 52,603 | 52,603 |
| Disposals | - | (6,361) | (6,361) |
| At 31 March 2022 | - | 88,899 | 88,899 |
| Net book value | | | |
| At 31 March 2022 | 30,460** | 69,515 | 99,975 |
| At 31 March 2021 | 79,750 | 51,404 | 131,154 |

* Relates primarily to the completion of the Feltham depot project.

** Comprising of mainly Isle of Wight, Heavy maintenance and multiple other projects

14. Stocks

| | 2022 £'000 | 2021 £'000 |
|-----------------------------|---------------|---------------|
| Spare parts and consumables | 3,211 | 3,742 |

There is no significant difference between the replacement cost of stocks and its carrying amount.

15. Debtors

| | 2022 £'000 | 2021 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade debtors | 74,326 | 38,791 |
| VAT | 9,153 | 24,277 |
| Deferred Tax | 1,703 | - |
| Other debtors | 46,979 | 32,832 |
| Prepayments and accrued income | 7,852 | 109,239 |
| | 140,013 | 205,139 |

Trade debtors are stated after provisions for impairment of £3.6m (2021: £2.4m). Trade debtors includes £nil (2021: £nil) falling due after more than one year.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

16. Cash at bank and in hand

| | 2022 £'000 | 2021 £'000 |
|---------------|---------------|---------------|
| Bank deposits | 113,305 | 183,006 |

Cash and cash equivalents include ring-fenced cash of £101.4m (2021: £173.8m). The ring-fenced cash represents that which is not available for distribution to the Company's shareholders or the amount required to satisfy the liquidity ratios at the balance sheet date.

17. Creditors:

| Amounts falling due within one year | 2022 £'000 | 2021 £'000 |
|-------------------------------------|---------------|---------------|
| Trade creditors | 60,496 | 45,122 |
| Amounts owed to group undertakings | 8,850 | 50,315 |
| Corporation Tax | 887 | 2,580 |
| Other taxation and social security | 7,532 | 7,017 |
| Other creditors | 121,192 | 154,314 |
| Accruals and deferred income | 118,969 | 276,430 |
| | 317,926 | 535,778 |

In other creditors there is a balance of £85.7m relating to capital grants.

During the current year a further £47.4m of subordinated loans (2021: £nil) were drawn down. These are interest-bearing loans, with a fixed rate of 5.5% per annum and no repayment schedule.

A £30m agreed funding commitment (AFC) was provided by the shareholders under the previous Franchise Agreement. This was 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.

During the year FirstGroup plc and MTR Corporation Limited agreed to waiver and subsequently cancel the loan facilities. The accounting for the waiver of both loans above has been determined based on the economic substance of the transaction following the rules under FRS 102 para 10.4(b)(ii). The PCS and AFC loan waivers described above arise from both SWR's ultimate parents (FirstGroup plc and MTR) acting as parents/shareholders. It is therefore deemed that the substance of the loan waivers is as capital contribution from both parents and therefore accounted in SWR's equity, with no gains or loss being recognised on the total of £119m.

| Amounts falling due after more than one year | 2022 £'000 | 2021 £'000 |
|--|---------------|---------------|
| Capital grant receipts | 8,925 | 90,795 |
| | 8,925 | 90,795 |

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

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

18. Provisions for liabilities and charges

| Amounts falling due within one year | Legal £'000 | Dilapidation £'000 | Total £'000 |
|--|----------------|-----------------------|----------------|
| At 1 April 2021 | (1,366) | - | (1,366) |
| Charged to the profit and loss account | (1,055) | (4,640) | (5,695) |
| Reclass from accrual | - | (2,208) | (2,208) |
| Utilised in the year | 736 | 1,109 | 1,845 |
| At 31 March 2022 | <u>(1,685)</u> | <u>(5,739)</u> | <u>(7,424)</u> |

| Amounts falling due after more than one year | Legal £'000 | Dilapidation £'000 | Total £'000 |
|--|----------------|-----------------------|----------------|
| At 1 April 2021 | - | - | - |
| Reclass from accrual | - | (7,850) | (7,850) |
| At 31 March 2022 | <u>-</u> | <u>(7,850)</u> | <u>(7,850)</u> |

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 Company is obligated under the terms of its leasing arrangements for its rolling stock, stations, depots and administrative premises to return the leased asset in a condition consistent with that documented in these leasing arrangements. The Company has made a provision for the estimated dilapidations cost in returning these assets to that condition.

19. Called up share capital

| | 2022 £ | 2021 £ |
|--|-----------|-----------|
| Authorised | | |
| 70 "A" (2021: 70) ordinary shares of £1 each | 70 | 70 |
| 30 "B" (2021: 30) ordinary shares of £1 each | <u>30</u> | <u>30</u> |
| Allotted, called up and fully paid | | |
| 70 "A" (2021: 70) ordinary share of £1 each | 70 | 70 |
| 30 "B" (2021: 30) ordinary share of £1 each | <u>30</u> | <u>30</u> |

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.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

20. Dividends

| | 2022 £'000 | 2021 £'000 |
|-----------|---------------|---------------|
| Dividends | <u>12,897</u> | <u>-</u> |

21. Commitments

Capital commitments

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

| | 2022 £'000 | 2021 £'000 |
|---------------------------------|---------------|---------------|
| Contracted for but not provided | <u>20,851</u> | <u>11,788</u> |

Capital commitments relate to tangible fixed assets, primarily fleet depot works and station improvement programmes. The Capital commitments reflect the works contracted to be delivered under NRC as defined through the annual planning process.

Operating leases

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

| | 2022 £'000 | 2021 £'000 |
|--|----------------|----------------|
| Within one year | 255,300 | 295,298 |
| In the second to fifth years inclusive | 44,115 | 364,213 |
| After five years | - | - |
| | <u>299,415</u> | <u>659,511</u> |

The Company agreed and is operating the NRC. The contract commenced at 02:00 on 30 May 2021. The contract has a duration of two years with an optional two-year extension callable at the Department's discretion.

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 £163.3m (2021: £144.4m). Commitments also exist to lease rolling stock of £90.8m (2021: £134.4m).

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

22. 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.

First MTR South Western Trains Limited (SWR), a subsidiary of FirstGroup plc and the operator of the South Western rail network, is currently facing proposed collective proceedings before the UK Competition Appeal Tribunal (the CAT) in respect of alleged breaches of UK competition law.

Stagecoach South Western Trains Limited (SSWT) (the former operator of the South Western rail franchise) is also a proposed defendant to these proceedings. A separate set of proceedings has been issued against London & South Eastern Railway Limited (LSER) in respect of another rail network. The two sets of proceedings are being heard together. The first substantive hearing, at which the CAT was asked to determine whether or not to certify the proposed collective proceedings, took place between 9 and 12 March 2021. The CAT issued its decision on 19 October 2021 to grant a CPO in favour of the proposed class representative. The Defendants' appeal against the decision was heard by the Court of Appeal on 14 to 16 June 2022, and the Court of Appeal dismissed the Defendants' appeal in a judgement dated 28 July 2022.

The proposed class representative alleges that FSWT, SSWT and LSER breached their obligations under UK competition law by not making boundary fares sufficiently available for sale, and/or by failing to ensure that customers were aware of the existence of boundary fares and/or bought an appropriate fare in order to avoid being charged twice for part of a journey. At present the Company cannot accurately determine the likelihood, quantum or timing of any damages and costs which may arise from these proceedings.

FirstGroup plc (70%) and MTR Corporation (30%) have provided performance bonds of £16.1m (2021: £16.1m) backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the Company, these bonds expire in October 2022.

At the previous year end FirstGroup plc and MTR Corporation Limited had provided support in the form of a 70:30 split subordinated loan facility totalling £87.4m, which was 50% backed by insurance arrangements to the Director of Passenger Rail Franchising in support of the franchise obligations of the Company. During the year FirstGroup plc and MTR Corporation Limited agreed to waive and subsequently cancel the loan facilities. The accounting for the waiver of both loans above has been determined based on the economic substance of the transaction following the rules under FRS 102 para 10.4(b)(ii). The PCS and AFC loan waivers described above arise from both SWR's ultimate parents (FirstGroup plc and MTR) acting as parents/shareholders. It is therefore deemed that the substance of the loan waivers is as capital contribution from both parents and therefore accounted in SWR's equity, with no gains or loss being recognised.

The guarantee and bonding arrangements under the NRC are significantly reduced and are structured differently. Under the NRC FirstGroup plc and MTR Corporation Limited have provided support in the form of;

- a 70:30 split loan facility ("PCG facility") totalling £6.0m, which is 50% backed by insurance arrangements to the Secretary of State in support of the obligations of the Company
- a 70:30 split Early Termination Indemnity guarantee ("Early Termination Indemnity") totalling £6.0m, which is 50% backed by insurance arrangements to the Secretary of State in support of the obligations of the Company.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

23. Pension 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 year ended 31 March 2022 was £0.4m (2021: £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). The Company is the sponsoring employer of the South West Trains Shared Cost Section and the Island Line Shared Cost Section.

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 £17.9m. (2021: £16.1m).

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 2022; at this date the market value of the scheme's assets totalled £1,236.9m (2021: £1,101.9m). The actuarial value of these assets was sufficient to cover 77% (2021: 66%) of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the Company's finances by independent investment managers appointed by the trustees of the scheme. Members of the scheme are classified as either Category 60 or Category 62 members (as defined in the Rules of the Scheme). The table below outlines the current contribution rates for the Category 60 and 62 members of both Sections.

| | South Western Trains Shared Cost Section | | | | Island Line Shared Cost Section | | | |
|--------------|--|--------------|--------------|--------------|---------------------------------|--------------|--------------|--------------|
| | Category 60 | Category 60 | Category 62 | Category 62 | Category 60 | Category 60 | Category 62 | Category 62 |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Employees % | 9.52 | 9.52 | 8.48 | 8.48 | 9.68 | 9.68 | 8.76 | 8.76 |
| Employers % | 14.28 | 14.28 | 12.72 | 12.72 | 14.52 | 14.52 | 13.14 | 13.14 |
| Total | 23.80 | 23.80 | 21.20 | 21.20 | 24.20 | 24.20 | 21.90 | 21.90 |

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)

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

23. Pension Liability (continued)

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.

Financial assumptions

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

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

Mortality assumptions

The assumptions made for current mortality reflect broadly the current experience. This takes into account size of pension and geographic location. An allowance is made for future improvements, based on information currently available on mortality trends. The post-retirement mortality (life expectancy in years) current rate for pensioners at 65 is 20.6 years (2021: 20.4 years). Future pensioners at aged 65 (45 now), will have a rate of 22.1 years (2021: 21.9 years).

Asset investments

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

| | 2021 £'000 | 2021 £'000 |
|-----------------------------|------------------|------------------|
| Equities | 721,703 | 77,600 |
| Property | 147,187 | 5,300 |
| Cash and cash equivalents | 3,541 | 7,700 |
| Other return seeking assets | 364,488 | 1,011,300 |
| | <u>1,236,919</u> | <u>1,101,900</u> |

The section is invested in Railpen pooled funds. The main investment is in the Growth Pooled Fund, the purpose of which is to invest in a wide range of return-seeking assets across different financial markets and economies 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 March 2022 assets totalling £252.2m which have been adjusted for cash inflows and outflows to 31 March 2022. 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

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

23. Pensions liability (continued)

retained the valuations provided directly by the investment manager. As a result, the actual assessed value of those assets as at 31 March 2022 may differ from the figure reported in these accounts.

Reconciliation of movements:

| | Assets £m | Liabilities £m | Shared Cost £m | Franchise Impact £m | Net £m |
|--|----------------|-------------------|----------------------|---------------------------|---------------|
| At 1 April 2020 | 915.7 | (1,418.3) | 201.0 | 301.6 | - |
| Profit and loss account | | | | | |
| Operating | | | | | |
| Service cost | - | (48.1) | 19.2 | 12.8 | (16.1) |
| Admin cost | - | (4.5) | 1.8 | - | (2.7) |
| Total Operating | - | (52.6) | 21.0 | 12.8 | (18.8) |
| Financing | 21.8 | (33.2) | 4.6 | 6.8 | - |
| Total Income Statement | 21.8 | (85.8) | 25.6 | 19.6 | (18.8) |
| Amounts paid to/from scheme | | | | | |
| Employer contributions | 18.8 | - | (7.5) | 7.5 | 18.8 |
| Employee contributions | 12.2 | - | (4.9) | (7.3) | - |
| Benefits Paid | (40.6) | 40.6 | - | - | - |
| Total | (9.6) | 40.6 | (12.4) | 0.2 | 18.8 |
| Expected closing position | 927.9 | (1,463.5) | 214.2 | 321.4 | - |
| Gains/loss | | | | | |
| Change in financial assumptions | - | (362.2) | 144.9 | 217.3 | - |
| Change in demographic assumptions | - | 85.5 | (34.2) | (51.3) | - |
| Return on assets excluding amounts included in net interest | 174.0 | - | (69.6) | (104.4) | - |
| Experience | - | 74.0 | (29.6) | (44.4) | - |
| Total | 174.0 | (202.7) | 11.5 | 17.2 | - |
| At 31 March 2021 | 1,101.9 | (1,666.2) | 225.7 | 338.6 | - |

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2022

23. Pensions liability (continued)

Reconciliation of movements:

| | Assets | Liabilities | Shared Cost | Franchise Impact | Net |
|---|----------------|------------------|----------------|------------------|---------------|
| | £m | £m | £m | £m | £m |
| At 1 April 2021 | 1,101.9 | (1,666.2) | 225.7 | 338.6 | - |
| Profit and loss account | | | | | |
| Operating | | | | | |
| Service cost | - | (88.9) | 35.6 | 35.4 | (17.9) |
| Admin cost | - | (3.0) | 1.2 | - | (1.8) |
| Total Operating | - | (91.9) | 36.8 | 35.4 | (19.7) |
| Financing | 22.7 | (32.8) | 4.0 | 6.1 | - |
| Total Income Statement | 22.7 | (124.7) | 40.8 | 41.5 | (19.7) |
| Amounts paid to/from scheme | | | | | |
| Employer contributions | 19.7 | - | (7.9) | 7.9 | 19.7 |
| Employee contributions | 12.9 | - | (5.2) | (7.7) | - |
| Benefits Paid | (46.0) | 46.0 | - | - | - |
| Total | (13.4) | 46.0 | (13.1) | 0.2 | 19.7 |
| Expected closing position | 1,111.2 | (1,744.9) | 253.4 | 380.3 | - |
| Gains/loss | | | | | |
| Change in financial assumptions | - | 150.9 | (60.3) | (90.6) | - |
| Change in demographic assumptions | - | - | - | - | - |
| Return on assets excluding amounts included in net interest | 125.7 | - | (50.3) | (75.4) | - |
| Experience | - | (6.7) | 2.7 | 4.0 | - |
| Total | 125.7 | 144.2 | (107.9) | (162.0) | - |
| At 31 March 2022 | 1,236.9 | (1,600.7) | 145.5 | 218.3 | - |

24. 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 services totalling £nil during the year (2021: £0.1m). As at 31 March 2022 the Company owed MTR Corporation Limited £nil (2021: £21.8m).

MTR (UK) Limited, a company registered in England and Wales, and a wholly owned subsidiary of MTR Corporation Limited, provided services totalling £1.6m (2021: £1.6m) during the year. As at 31 March 2022 the Company owed MTR (UK) Limited £nil (2021: £nil).

First MTR South Western Trains Limited

Notes to the financial statements (continued)

Year ended 31 March 2022

25. Post balance sheet events

Coronavirus continues to have an adverse impact on both the rail industry and the wider economy of the United Kingdom. The Company continues to look at ways of safely mitigating the risks of Coronavirus to our passengers, employees and our shareholders.

26. 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.