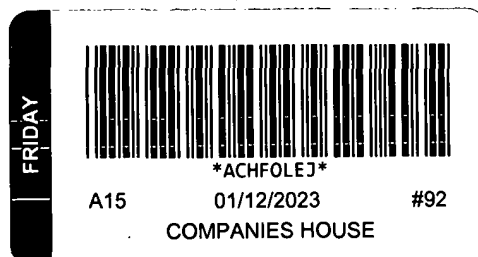


Company Registration No. 07900320

FIRST MTR SOUTH WESTERN TRAINS LIMITED

Annual Report and Financial Statements

For the Year ended 31 March 2023



First MTR South Western Trains Limited

Contents	Page
Strategic report	2
Directors' report	13
Statement of directors' responsibilities	17
Independent auditors' report	18
Profit and loss account	22
Statement of comprehensive income	23
Balance sheet	24
Statement of changes in equity	25
Notes to the financial statements	26

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

First MTR South Western Trains Limited (The Company) operates passenger rail services on some of the busiest routes in the country. The operation covers urban, suburban, regional and long-distance services to customers 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 was £968.3m (2022: £982.2m), net subsidy received from the DfT reduced to £144.9m (2022: £375.0m) and the Company made an operating profit for the year of £12.9m (2022: profit of £12.2m). At 31 March 2023 the Company was in a net asset position of £20.9m (2022: £14.9m).

Current trading

Contracting Framework

The Company is operating under a National Rail Contract “NRC” which commenced on 30 May 2021. The NRC has an initial 2-year term with an option with the Department for Transport (DfT) to extend for a further 2 years. On the 9 February 2023 the DfT enacted their callable option and extended our NRC by 2 years to 25 May 2025.

Under this contract, SWR bears no revenue risk and has very limited cost risk under an annual budget agreed with DfT; there is also no significant contingent capital risk. In return, SWR receive a fixed management fee as well as the opportunity to earn an additional performance fee subject to stretching performance targets.

Passenger Revenue and Demand

Our passenger volumes increased by 27.2% (2022: increased by 128%) and passenger receipts increased by 41.1% (2022: increased by 195.5%) over the year (2023: £780.4m versus 2022: £553.0m). At the close of the year passenger volumes had returned to 76% of pre pandemic volumes (60% of peak and 107% of off peak pre pandemic volumes). Recovery from coronavirus continued during the financial year. The peak travel volumes reflect the changing journey patterns of our commuting customer group, where in general they travel on fewer days per week than pre-covid.

Peak capacity provision at the close of the financial year was matching existing customer demand. We continue to work towards the introduction of the Arterio (Class 701) fleet. Introduction of the Arterio fleet 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.

Performance and Infrastructure

The business has performed well despite experiencing a challenging operational performance year. Train operating performance was below targeted levels in 2023 and was impacted by key infrastructure issues such as extreme weather incidents and infrastructure failures.

Salisbury Tunnel Junction

At around 18:45 hrs on 31 October 2021, train reporting number 1L53, the 17:20 hrs South Western Railway passenger service from London Waterloo to Honiton, collided with the side of train 1F30, the 17:08 hrs Great Western Railway passenger service from Portsmouth Harbour to Bristol Temple Meads. The collision took place at Salisbury Tunnel Junction, which is on the immediate approach to Fisherton Tunnel, near Salisbury in Wiltshire. The impact of the collision caused the front two coaches of train 1L53 and the rear two coaches of train 1F30 to derail. Thirteen passengers and one member of railway staff required treatment in hospital as a result of the accident, which also caused significant damage to the trains and railway infrastructure involved. RAIB issued an interim report in February 2022 and continues to liaise with stakeholders on its findings and any arising safety issues. The RAIB’s final investigation report is pending.

First MTR South Western Trains Limited

Strategic report (continued)

Hook Landslip

Following heavy rainfall on 15 January 2023, part of an embankment near Hook collapsed severely reducing the number of trains that could run on the South West Main Line, leaving trains unable to call at Hook in the direction of Basingstoke. Urgent works reinstated most of First MTR South Western Railway's (SWR) services from the 23 January, and Network Rail worked around the clock to repair the embankment allowing all four lines to reopen from 24 February.

Cost Base and Deliverables

Employee costs, relations, recruitment and retention

Workforce reform

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.

Industrial action

On 24 May 2022 the RMT informed the business that the ballot for strike action over jobs, pay and conditions had been successful as did TSSA on 8 September 2022 and ASLEF on 7 December 2022. The business has experienced a significant level of disruption during the year as a result of industrial action taken by RMT members and to a lesser extent by industrial action by ASLEF & TSSA members. This action has resulted in 19 days being affected by industrial strike action taken during the year, in addition to extended periods of action short of a strike during December. The rail industry will continue to work with the unions to seek to resolve this dispute.

The rail industry will continue to work with the unions to seek to resolve this dispute.

Inflationary Pressures

The business's cost base has been affected by the inflationary pressures that have been present in the second half of the financial year, particularly in relation to utility and fuel prices which were partially abated by the government support mechanisms offered.

A significant proportion of the business's key contracts are linked to various inflationary measures and therefore the continuing higher rate of inflation is expected to add to cost pressures as these crystallise in the next financial year.

Fleet Capacity

Delays to the Class 701 delivery and introduction into service has been managed through the extension of use of our Class 455 and Class 707 fleets.

SWR have taken delivery of 41 Alstom Class 701 trains out of the 90 trains ordered and it is anticipated that a phased introduction of the trains into operation will commence in Financial Year 2023/2024.

Deliverables under our NRC

Responsible partnerships with;

a) our customers and communities

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 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.

First MTR South Western Trains Limited

Strategic report (continued)

b) our industry partners

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.

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.

We continue to work closely with Network Rail, the DfT, local authorities and all industry partners to deliver projects while minimising disruption for passengers.

Key initiatives, obligations and other enhancements

We are focused on delivering for our customers and the during the year delivered key initiatives, obligations and other enhancements. The listing below provides examples of the items that have been delivered over the course of the year.

- Establishment of real-time occupancy technology on the class 444, 450, 158 & 159 fleets
- Installation of mobile information totems at key stations
- Full refurbishment of toilet facilities at 16 stations
- Re-decoration and vinyl wrapping of cubicles and vanity units at 14 locations, in 32 separate facilities.
- Delivery of a station painting program which saw the re-painting of 44 stations
- Refurbishment of 17 colleague accommodation facilities
- Access for All minor works to improve accessibility at 16 stations
- Waiting room refurbishment scheme at 10 stations
- Roll out of defibrillators at 30 staffed stations on the network, with a further 124 defibrillators to be installed this year
- Installation of SWR network's first Changing Places facility at Woking station
- Installation of 100 new external customer benches at 25 stations across the network.
- The installation of calming features to waiting rooms at 3 locations
- The installation of new accessible toilets at 3 locations.

In addition, 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.

Key performance indicators

Profitability

SWR has generated satisfactory returns despite challenging recent industry conditions.

Performance Based Fee

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

First MTR South Western Trains Limited

Strategic report (continued)

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. Service Quality was changed to quantitative measure from the start of 2022.23 and is split into 3 subcomponents. The Finance component was split into Finance – Cost, Finance – Revenue and Ticketless Travel. The Ticketless Travel subcomponent is a quantitative measure. Finance – Cost, Finance – Revenue, Customer Satisfaction 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.

Non-Financial Performance Indicators

The key non-financial performance indicators are as follows:

Train operating performance was below targeted levels in 2023 with our industry standard public performance measure (PPM) moving average score standing at 86.7% (2022: 90.1%). PPM is determined by the number of trains which arrive at destinations within the individual train operating company benchmark target.

Transport Focus used to 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 was paused. NRPS is not going to continue and instead a customer satisfaction survey (as yet unbranded / unnamed) will replace both. The timing of the introduction of the new industry survey is yet to be confirmed.

Transport Focus do however produce a Rail User survey which is based on a smaller sample size than the NRPS survey. For 2023 we scored 87%, which was 1% above the average score for all Train Operating Companies (TOCs), there are no comparatives available for prior year.

The Company’s average headcount in the year decreased to 5,364 (2022: 5,395), a decrease of 0.6%.

Passenger volume increased by 27.2% as noted in the Business Review on page 2.

Future Outlook

Our business objectives, strategic priorities and business plan commitments

Our business objectives

Our business objectives help us to focus on what we want to deliver for our people, our customers and our stakeholders. Our business objectives are;

- I. Ensuring Safe & Reliable Operations: We know that the most important thing we can deliver for our customers is a safe and on time railway. We’re committed to introducing appropriate technology, trains and working methods to ensure that a safe on time journey is taken as a given within SWR.
- II. Delivering Great Customer Journeys: Every journey on our network matters, because each one connects someone to the people and places that are important to them. We will work together with care and commitment to make every journey, every day, easy and reliable. When things don’t go to plan we’ll look after our customers and provide accurate and timely information.
- III. Creating A Great Place To Work: It’s the people that make our business and we’re committed to making SWR an inclusive place to work where everyone feels welcome. We’ll invest in training and development and will provide a kind, supportive and accountable working environment where everyone can flourish as part of one team.
- IV. Becoming A Sustainable and Community Focused Railway: SWR brings people together to get the most bits out of life, connecting all London has to offer with the best of the South West. We’re committed to serving, safeguarding and strengthening our planet, places and people and will work closely with our stakeholders to have a positive impact in the communities we serve.
- V. Delivering A Better Future: The railway is changing and we are committed to adapting our business to best meet the needs of our customers, our people and our industry partners. We will innovate and work collaboratively as an industry leading operator, while improving our systems and processes to help us deliver our plans.

First MTR South Western Trains Limited

Strategic report (continued)

Our strategic priorities

Our strategic priorities that we will focus on in the next couple of years are;

1. Develop and implement a customer experience plan that provides the clarity needed to drive our relentless focus on making every journey, every day, easy and reliable.
2. Foster an open, inclusive and supportive relationship with all our people so we can work together to earn the trust of the customers who travel with us, our industry partners and our colleagues from every corner of the business.
3. Develop and implement a joint strategic plan with Network Rail to improve and optimise network performance through efficient partnership working.
4. Work with the wider industry and supply chain to agree and implement a fleet strategy that meets the needs of our customers and is both financially and environmentally sustainable for the long term.
5. Bring the Arterio Fleet into service as soon as possible, to deliver safe and reliable additional capacity and an enhanced customer and colleague experience across our network.
6. Work constructively with our people and trade unions to modernise our business to meet their changing needs and those of our customers, stakeholders and the environment.
7. Build a strong safety and security culture by promoting an atmosphere of trust through engagement with our people across the business.
8. Develop a motivated, professional and accountable team of people leaders, empowered to make local decisions.
9. Manage the NRC and Annual Business Plan (ABP) successfully, ensuring compliance and successful risk management across all areas of the business and our wider financial and contractual obligations.

These strategic priorities contributed to delivery of our business objectives and will see us to deliver a step change for our customers, our colleagues and our stakeholders.

Our business plan commitments

We submit a business plan to the department annually in which we agree the commitments that we are to deliver. The DfT publishes our business plan commitments each year which align with our strategic priorities. Our 2024 business plan commitments include (note that this list is not exhaustive):

- Bringing the Arterio fleet into passenger use;
- Delivery of planned station improvements worth (up to) £5.0m;
- Partnerships on local community led rail projects valued (up to) £1.5m;
- Delivery of minor (stations) improvements worth (up to) £0.4m;
- Implementation of Superfast Wi-Fi on services between Basingstoke and Earlsfield;
- Continued engagement in our strategic pathway towards total decarbonisation by 2040;
- Establishment of baseline air quality data at stations through the Air Quality Monitoring Network;
- Development and publication of a strategy for the monitoring and management of environmental noise;
- Development of biodiversity action plans at 25 locations, and a roadmap for achieving biodiversity positive by 2030;
- Complete distribution of body worn devices to all identified staff; and
- Delivery of the relevant project/contract milestones required for the 3-year CCTV renewal programme.

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.

First MTR South Western Trains Limited

Strategic report (continued)

Background for going concern

The impact of the recovery from the Coronavirus pandemic and the record levels of inflation, on the wider economy and the transport sector is placing the industry under significant financial pressures. 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 has been critical as we are seeing to the return to normal conditions. 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 decision to enact their callable option to extend our NRC contract by 2 years to 25 May 2025, 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 the 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:

- A new normal for customers travels patterns and the longer term impacts of the difficult economic conditions;
- 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; and
- the timing of working capital flows.

These financial forecasts assume the business has seen customers adjust to the new normal and has factored in the short term and long term economic factors in future passenger demand growth assumptions. However, given the contractual terms of the NRC it is not considered necessary to run passenger revenue and demand related stress tests.

The directors have made enquiries and note that the FirstGroup plc 2023 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 76 to 77 of the FirstGroup plc 2023 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 the 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.

Principal risks and uncertainties

To deliver our strategy, it is important that we understand and manage the risks that face 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.

First MTR South Western Trains Limited

Strategic report (continued)

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.

Economic Factors

The higher rates of inflation has impacted and will continue to impact some of the Company's key risk areas, notably:

- A significant proportion of the business's key contracts are linked to various inflationary measures and therefore the continuing higher rate of inflation is expected to add to cost pressures as these crystallise in the next financial year;
- Our passengers may be impacted through having less disposable income to spend on leisure activities, including journeys by rail. This may lead to a reduction in demand for our off peak services, or they may choose to commute on less days per week.

Introduction of our Arterio Fleet

The company is focused upon delivery of our Arterio fleet into passenger service and the realisation of the benefits that this fleet will bring to our customers and stakeholders.

The company has appropriate structures and processes in place to identify and mitigate risks associated with this new fleet introduction.

Contractual agreements with the DfT

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

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.

First MTR South Western Trains Limited

Strategic report (continued)

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 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.

At the previous year-end, we noted that The Pensions Regulator (TPR) had been in discussion with the Railways Pension Scheme (the Scheme) regarding the assumptions used to determine the Scheme's funding requirements. Discussions are ongoing, 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 2022 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 TPRs 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

Employee costs represent a significant component of the Company's operating costs. Employee 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.

On 4 May 2023 RMT announced that its members voted in favour of continuing industrial action for another six months at South Western Railway (excluding Island Line) and on 14 June 2023 ASLEF announced that its members voted in favour of industrial action on South Western Railway and to continue industrial action on the Island Line and by Depot Drivers.

First MTR South Western Trains Limited

Strategic report (continued)

Industrial action has had and will continue to adversely impact our customers, our stakeholders and have a financial impact on the Company's operation until resolution to these disputes are achieved.

The DFT have provided South Western Railway with a mandate to begin both public and employee consultation on proposed changes to station operations, in line with parallel industry activity by all train UK train operators.

To mitigate these risks, 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.

The Company has a Safety and Security Director 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(1) 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
- Shareholders (First Rail Holdings Limited and MTR Corporation (UK) Limited and ultimately FirstGroup plc and MTR Corporation Limited)
- Government and political stakeholders
- Our People
- Communities
- Strategic partners and suppliers

First MTR South Western Trains Limited

Strategic report (continued)

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 plc 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 plc 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:

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

First MTR South Western Trains Limited

Strategic report (continued)

- 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(1) 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:

The revised timetables introduced and operated during the various rounds of industrial action have been iterated following feedback from our customers, communities, clients and industry partners.

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

DocuSigned by:

8E611B5C762F4D1...
J Roberts
Director

21 July 2023

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 2023.

Matters included in the Strategic report

In accordance with s414C(11) 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
D Statham (appointed June 2023)

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 2023 Annual Report and Accounts describing how FirstGroup plc has applied the Code's main principles and highlighting any non-compliance with the Code. The 2023 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 10 directors and their role is to:

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

The Board will, either directly or through First Rail Holdings Limited, provide papers to the FirstGroup plc Board or FirstGroup plc Board Committees, as appropriate, for consideration and approval. Through the authority delegated from FirstGroup plc and MTR Corporation Limited, 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

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)

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 balances in note 16. The Company does not enter directly into any derivative financial instruments. 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 22.

£9.3m of dividends were declared and paid during the year (2022: £12.9m).

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 4th May 2023 RMT announced that its members voted in favour of continuing industrial action for another six months at South Western Railway (excluding Island Line) and on 14th June 2023 ASLEF announced that its members voted in favour of industrial action on South Western Railway and to continue industrial action on the Island Line and by Depot Drivers. Industrial action has and continues to adversely impact customer service and have a financial impact on the Company's operation. We will continue to work with the unions to seek to resolve this dispute.

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 Enabling Framework Agreement (EFA) is expected to continue to impact future events in the near term.

Engagement with customers, suppliers and other key stakeholders

The Section 172(1) report contained within the Strategic Report outlines the primary ways in which the Company fosters its business relationships with its key stakeholders.

Streamlined Energy and Carbon Reporting ("SECR") compliance

Details of the Company's Greenhouse gas emissions, energy consumption and energy and emissions reduction initiatives are disclosed on a consolidated basis in the Annual Report of FirstGroup plc.

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 21 July 2023.

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

DocuSigned by:

8E611B5C762F4D1...

J Roberts
Director

21 July 2023

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

DocuSigned by:


8E611B5C762F4D1...

J Roberts
Director

21 July 2023

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 Train Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 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, including 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 2023; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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:

- reviewing management's forecasts for the period to 31 March 2025 and the key assumptions underlying the forecasts
- reviewing the two year extension of National Rail Contract granted by DfT covering the period until 25 May 2025
- reviewing the disclosures within the financial statements to confirm that the going concern key assumptions are adequately disclosed by the directors

First MTR South Western Trains Limited

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 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities 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.

First MTR South Western Trains Limited

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 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 Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting 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.

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.

First MTR South Western Trains Limited

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.

DocuSigned by:

Kenneth Wilson

22D6003FA992463
Kenneth Wilson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

21 July 2023

First MTR South Western Trains Limited

Profit and Loss Account

For the Year ended 31 March 2023

		2023 £'000	2022 £'000
	Note		
Turnover	2	968,300	982,240
Operating costs			
- General	3	(1,034,801)	(1,023,149)
Total operating costs		(1,034,801)	(1,023,149)
Other operating income	4	79,420	53,155
Operating profit		12,919	12,246
Interest receivable and similar income	8	696	22
Interest payable and similar expenses	8	(6)	(3)
Net interest receivable		690	19
Profit before taxation	9	13,609	12,265
Tax on profit	10	1,617	646
Profit for the financial year		15,226	12,911

First MTR South Western Trains Limited

Statement of comprehensive income

For the Year ended 31 March 2023

	2023	2022
	£'000	£'000
Profit after tax for the financial year	15,226	12,911
Items that will not be reclassified subsequently to the profit and loss account:		
Actuarial gain to scheme assets and liabilities (note 23)	397,000	269,900
Actuarial loss due to rail franchise adjustment (note 23)	<u>(397,000)</u>	<u>(269,900)</u>
Total other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>15,226</u>	<u>12,911</u>

First MTR South Western Trains Limited

Balance Sheet

As at 31 March 2023

	Note	£'000	2023 £'000	£'000	2022 £'000
Fixed assets					
Intangible assets	11		223		504
Tangible assets	12		48,951		99,975
Investments	13		-		-
			<u>49,174</u>		<u>100,479</u>
Current assets					
Stocks	14	3,943		3,211	
Debtors	15	188,385		140,013	
Cash at bank and in hand	16	107,241		113,305	
		<u>299,569</u>		<u>256,529</u>	
Creditors: amounts falling due within one year	17	(284,683)		(317,926)	
Provisions for liabilities: amounts falling due within one year	18	(334)		(7,424)	
Net current assets/(liabilities)			<u>14,552</u>		<u>(68,821)</u>
Total assets less current liabilities			<u>63,726</u>		<u>31,658</u>
Creditors: amounts falling due after more than one year	17		(26,412)		(8,925)
Provisions for liabilities: amounts falling due after one year	18		(16,458)		(7,850)
Pension liability	23		-		-
Net assets			<u>20,856</u>		<u>14,883</u>
Capital and reserves					
Called up share capital	19		-		-
Profit and loss account			<u>20,856</u>		<u>14,883</u>
Total shareholders' funds			<u>20,856</u>		<u>14,883</u>

The accompanying notes on pages 26 to 48 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 48 were approved by the Board of Directors on 21 July 2023 and were signed on its behalf by:

DocuSigned by:

Jonathan Roberts

8E611B5C762F4D1...

J Roberts
Director

First MTR South Western Trains Limited

Statement of changes in equity

Year ended 31 March 2023

	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
Balance at 1 April 2021	-	(104,460)	(104,460)
Total comprehensive income for the financial year	-	12,911	12,911
Dividends paid (note 21)	-	(12,897)	(12,897)
Capital Contribution (note 18)	-	119,329	119,329
Balance at 31 March 2022	-	14,883	14,883
Total comprehensive income for the financial year	-	15,226	15,226
Dividends paid (note 21)	-	(9,253)	(9,253)
Capital Contribution (note 18)	-	-	-
Balance at 31 March 2023	-	20,856	20,856

First MTR South Western Trains Limited

Notes to the financial statements

Year ended 31 March 2023

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 6 & 7, 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 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 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.

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

- the levels of fiscal and financial support has been agreed up until 31 March 2024 at which point the financial support is reset based upon agreement of the annual business plan;
- contractual support has been agreed through extension of the NRC this provides a 2 year contract with the DfT until 25 May 2025;
- 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.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

1. Principle accounting policies (continued)

Statement on NRC Extension

On 9 Feb 2023 the DfT enacted its right to extend the NRC with the company for a further 2 years until 25 May 2025. 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 the approval of the financial statements under the NRC contract.

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.

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.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

1. Principle accounting policies (continued)

(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

(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.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

1. Principle accounting policies (continued)

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.

(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.

The subsidy receipts received from the DfT is considered to be a government grant and is therefore accounted as such. This is presented within the revenue section on the income statement to most closely shows the substance of the arrangement.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

1. Principle accounting policies (continued)

Other Revenue

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

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.

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) **Investments**

Fixed asset investments are stated at cost, net of any provision for impairment.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

1. Principle accounting policies (continued)

(s) 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 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.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

1. Principle accounting policies (continued)

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 extension awarded on 9 Feb 2023, 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 extension. Any change in the useful economic life is a change in estimate and is accounted for prospectively in the accounts.

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 performance under the NRC contract. 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 the NRC contract.

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 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.

The Company entered into the NRC from 31 May 2021 at 02.00 for two years which has since been extended on 9 Feb 2023 for a further two years to 25 May 2025. Under the NRC the Company received a net funding from the DfT of £144.8m (2022 for 11 periods: £283.1m). 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 2023 was £nil (2022 for 2 periods: £91.9m).

Dilapidations

The Company recognises amounts in the Profit and Loss account in relation to any contractual future obligation it has at the 31 March 2023. The company has three dilapidations provisions in place, Rolling stock, Station dilapidations and administrative property dilapidations. The transfer of future economic benefit from the Company for all three of 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 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 2023.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

1. Principle accounting policies (continued)

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. Service Quality was changed to quantitative measure from the start of 2022.23 and is split into 3 subcomponents. The Finance component was split into Finance – Cost, Finance – Revenue and Ticketless Travel. The Ticketless Travel subcomponent is a quantitative measure. Finance – Cost, Finance – Revenue, Customer Satisfaction 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.

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.

	2023 £'000	2022 £'000
Turnover can be analysed as follows:		
Passenger receipts	780,445	552,993
Net subsidy received*	144,849	374,978
Other revenue	43,006	54,269
	<u>968,300</u>	<u>982,240</u>

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

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

3. Operating costs

	2023 £'000	2022 £'000
Hire of Rolling Stock	104,010	117,341
Station & track access and facilities	161,770	147,651
Other lease costs	2,269	1,958
Raw materials and consumables	92,477	94,544
Staff costs (note 5)	341,433	330,461
Other external charges	258,867	278,380
Intangible asset amortisation (note 11)	280	211
Tangible asset depreciation (note 12)	73,695	52,603
	<u>1,034,801</u>	<u>1,023,149</u>

4. Other operating income

	2023 £'000	2022 £'000
Other operating income	<u>79,419</u>	<u>53,155</u>

Other operating income represents amortisation of funds received in respect of capital projects £73,975k (2022: £53,155k). Capital grant income is recognised in the year in which the relevant depreciation charges are incurred. Other Operating income also represents recharges received throughout the year and other adhoc income which does not form part of the company's normal trading activity.

5. Employee numbers and costs

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

	2023 Number	2022 Number
Operations	4,123	4,213
Maintenance	758	732
Customer service	148	152
Other	335	298
	<u>5,364</u>	<u>5,395</u>

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

5. Employee numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2023 £'000	2022 £'000
Wages and salaries	290,347	282,645
Social security costs	30,876	28,822
Other Pension costs (note 23)	20,210	18,994
	<u>341,433</u>	<u>330,461</u>

6. 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.

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

	2023 £'000	2022 £'000
Aggregate emoluments (excluding pension contributions)	<u>592</u>	<u>398</u>

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. Amounts included for bonuses in 2023 are in relation to performance in years ended 31 March 2022 and 31 March 2023.

Two directors were members of the Company's defined benefit scheme (2022: 2)

The emoluments of the highest paid director amounted to:

	2023 £'000	2022 £'000
Aggregate emoluments (excluding pension contributions)	<u>353</u>	<u>224</u>
Defined benefit scheme		
Accrued pension at end of year	6	3
Accrued lump sum at end of year	4	2

The highest paid director is entitled to receive shares under the FirstGroup long-term incentive plan. No share options were exercised during the year by the highest paid director. (2022: Certain share options were exercised by the highest paid director.)

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

7. Share-based payments

Save as you earn (SAYE)

The Company's ultimate parent company operates an HMRC approved savings-related share option scheme. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period. Share save accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months. Details of the share options outstanding during the year are disclosed in the published financial statements for FirstGroup plc. 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 £0.4m (2022: £0.5m) relating to equity-settled share-based payment transactions.

	2023 £'000	2022 £'000
Total expense recognised in the profit and loss account	384	505
Contribution paid to First Rail Holdings Limited (parent company)	(384)	(505)
Credited to shareholders' funds/(deficit)	-	-

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

8. Net interest receivable

	2023 £'000	2022 £'000
<i>Interest payable and similar expenses</i>		
Amounts payable to group undertakings	-	(3)
Bank and other interest payable	(6)	-
Interest payable and similar expenses	(6)	(3)
<i>Interest receivable and similar income</i>		
Bank interest receivable	696	22
Interest receivable and similar income	696	22
Net interest receivable	690	19

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

9. Profit before taxation

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

	2023 £'000	2022 £'000
Profit before taxation is stated after charging/(crediting):		
Auditors' remuneration		
- Audit fee for the audit of the annual accounts	291	319
- Non-audit fee for other services	35	15
Cost of stock recognised as an expense	92,477	94,544
Rentals payable under operating leases		
- plant and machinery	106,279	117,340
- other operating leases	161,770	147,651
Net rents receivable from property	(2,884)	(3,297)

10. Tax on profit

	2023 £'000	2022 £'000
Current taxation		
- Current year corporation tax payable	1,534	1,172
- Adjustment in respect of prior years	(289)	(115)
Total current taxation	1,245	1,057
Deferred taxation		
- Origination and reversal of timing differences	1,102	1,203
- Effect of increase in tax rate on opening deferred tax balance	(1,067)	
- Adjustment in respect of prior years	(43)	-
- Recognition of previously unrecognised deferred tax assets	(2,854)	(2,906)
	(2,862)	(1,703)
Total tax credit on profit	(1,617)	(646)

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2022: 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 2023

10. Tax on profit (continued)

	2023 £'000	2022 £'000
Profit before tax	13,609	12,265
Tax on Profit before tax multiplied by standard rate of corporation tax in the United Kingdom (19%) (2022: 19%)	2,586	2,331
Factors affecting charge		
- Expenses not deductible for tax purposes	78	44
- Adjustment in respect of prior years	(332)	(115)
- Effect of increase in tax rate on opening deferred tax balance	(1,067)	-
- Effect of rate change on origination and reversal of timing differences	(28)	-
- Recognition of previously unrecognised losses	(2,854)	(2,906)
Total tax credit on profit	(1,617)	(646)

From 1 April 2023 the corporation tax rate will increase to 25% and deferred tax has been provided at 25% on temporary differences at the balance sheet date.

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 £81.5m of tax losses as at 31 March 2023 (2022: £92m) 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.

11. Intangible assets

	Computer Software £'000	Assets under Construction £'000	Total £'000
Cost			
At 1 April 2022	2,935	250	3,185
Disposals	(1)	-	(1)
Inter-category transfer	250	(250)	-
At 31 March 2023	3,184	-	3,184
Accumulated amortisation			
At 1 April 2022	2,681	-	2,681
Charge for year	280	-	280
At 31 March 2023	2,961	-	2,961
Net book value			
At 31 March 2023	223	-	223
At 31 March 2022	254	250	504

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 2023

12. Tangible assets

	Assets under construction £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2022	30,460	158,414	188,874
Additions	9,798	12,873	22,671
Inter-category transfer*	(21,808)	21,808	-
At 31 March 2023	18,450	193,095	211,545
Accumulated depreciation			
At 1 April 2022	-	88,899	88,899
Charge for year	-	73,695	73,695
At 31 March 2023	-	162,594	162,594
Net book value			
At 31 March 2023	18,450**	30,501	48,951
At 31 March 2022	30,460***	69,515	99,975

* Relates primarily to the completion of the Isle of Wight project.

** Comprising of Station CCTV, Berthing projects and multiple other projects.

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

13. Investments

	Country of registration	No. of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	5%
Rail Settlement Plan	UK	1	Ordinary (4p)	5%
Rail Staff Travel	UK	1	Ordinary (4p)	5%
NRES	UK	1	Ordinary (4p)	5%

The holdings represent 5% of the total issued ordinary share capital for each of these entities, which provide a range of services to all UK passenger rail operators. The investments are held at cost, net of any provision for impairment.

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

14. Stocks

	2023 £'000	2022 £'000
Spare parts and consumables	3,943	3,211

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

15. Debtors

	2023 £'000	2022 £'000
Amounts falling due within one year:		
Trade debtors	75,320	74,326
Amounts owed from group undertakings	2,324	-
VAT	19,161	9,153
Deferred Tax	4,565	1,703
Other debtors	37,373	46,979
Prepayments and accrued income	49,642	7,852
	<u>188,385</u>	<u>140,013</u>

Trade debtors are stated after provisions for impairment of £26.3m (2022: £3.6m). Trade debtors includes £nil (2022: £nil) falling due after more than one year.

16. Cash at bank and in hand

	2023 £'000	2022 £'000
Bank deposits	<u>107,241</u>	<u>113,305</u>

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

17. Creditors:

	2023 £'000	2022 £'000
Amounts falling due within one year		
Trade creditors	93,602	60,496
Amounts owed to group undertakings	15,091	8,850
Corporation Tax	2,006	887
Other taxation and social security	7,916	7,532
Other creditors	61,654	121,192
Accruals and deferred income	104,414	118,969
	<u>284,683</u>	<u>317,926</u>

In Other creditors there is a balance of £46.3m (2022: £85.7m) relating to capital grants.

During the previous year FirstGroup plc and MTR Corporation Limited agreed to waive and subsequently cancel the existing loan facilities. The accounting for the waiver of the loans has been determined based on the economic substance of the transaction following the rules under FRS 102 para 10.4(b)(ii). The loan waivers arise from both SWR's ultimate parents (FirstGroup plc and MTR Corporation Limited) 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.

	2023 £'000	2022 £'000
Amounts falling due after more than one year		
Capital grant receipts	26,412	8,925
	<u>26,412</u>	<u>8,925</u>

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 2023

18. Provisions for liabilities

Amounts falling due within one year	Legal £'000	Dilapidation £'000	Total £'000
At 1 April 2022	(1,685)	(5,739)	(7,424)
Utilised in the year	463	-	463
Transfer to contract provisions greater than one year	888	5,739	6,627
At 31 March 2023	(334)	-	(334)

Amounts falling due after more than one year	Legal £'000	Dilapidation £'000	Total £'000
At 1 April 2022	-	(7,850)	(7,850)
Charged to the profit and loss account	(453)	(1,528)	(1,981)
Transfer from contract provisions less than one year	(888)	(5,739)	(6,627)
At 31 March 2023	(1,340)	(15,118)	(16,458)

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

	2023 £	2022 £
Authorised		
70 "A" (2022: 70) ordinary shares of £1 each	70	70
30 "B" (2022: 30) ordinary shares of £1 each	30	30
Allotted, called up and fully paid		
70 "A" (2022: 70) ordinary share of £1 each	70	70
30 "B" (2022: 30) ordinary share of £1 each	30	30

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

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

20. Dividends

	2023 £'000	2022 £'000
Dividends	9,253	12,897

21. Commitments

Capital commitments

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

	2023 £'000	2022 £'000
Contracted for but not provided	14,612	20,851

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:

	2023 £'000	2022 £'000
Within one year	260,193	255,300
In the second to fifth years inclusive	232,637	44,115
After five years	-	-
	492,830	299,415

The Company agreed and is operating the NRC. The contract commenced at 02:00 on 30 May 2021. The contract had a duration of two years. The Department called an extension for two years on 9 Feb 2023 to 25 May 2025.

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 £172.7m (2022: £163.3m). Commitments also exist to lease rolling stock of £87.5m (2022: £90.8m).

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

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.

The company is a defendant to 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 network) is also a defendant to these proceedings. Separate sets of proceedings have been issued against London & South Eastern Railway Limited and related entities ('LSER') and, more recently, against Govia Thameslink Railway Limited and related entities ('GTR') in respect of the operation of other rail services. The three sets of proceedings are being heard together. The class representative ('CR') alleges that the company, SSWT, LSER and GTR 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. A collective proceedings order ('CPO') was made by the CAT in January 2022 in respect of the company/SSWT and LSER proceedings and, following an unsuccessful appeal by the defendants, the proceedings are continuing alongside the GTR proceedings in respect of which the CAT issued a judgment setting out its reasons for granting a CPO in March 2023. The Secretary of State for Transport served a written statement of intervention in all three proceedings in April 2023. The issues arising in the proceedings are to be determined in three separate trials. The first trial, concerning issues relating to the alleged abuse of dominance, will start in June 2024 and the second trial will start in June 2025 but a trial date for the third trial has not yet been set. At present the Company cannot accurately determine the likelihood, quantum or timing of any damages and costs which may arise from these proceedings.

In FY21 First group plc (70%) and MTR Corporation Limited (30%) had provided performance bonds of £16.1m backed by insurance arrangement, to the Director of Passenger Rail Franchising in support of the franchise obligations of the Company, these bonds expired in October 2022. No Performance bonds were provided for the current year.

At FY21 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 prior 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 2023

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 2023 was £0.3m (2022: £0.4m).

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 £16.5m. (2022: £17.9m).

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 2023; at this date the market value of the scheme's assets totalled £1,204.4m (2022: £1,236.9m). The actuarial value of these assets was sufficient to cover 97% (2022: 77%) 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
	2023	2022	2023	2022	2023	2022	2023	2022
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 2023

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:

	2023	2022
Rate of increase in salaries	3.22%	3.43%
Rate of increase of pensions in payment	2.72%	2.93%
Rate of increase of pensions in deferment	2.72%	2.93%
Discount rate	4.80%	2.83%
Inflation assumption – RPI	3.00%	3.30%
Inflation assumption – CPI	2.72%	2.93%

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 20.7 years (2022: 20.6 years). Future pensioners at aged 65 (45 now), will have a rate of 22.2 years (2022: 22.1 years).

Asset investments

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

	2023 £'000	2022 £'000
Equities	668,350	721,703
Property	138,945	147,187
Cash and cash equivalents	2,850	3,541
Other return seeking assets	394,231	364,488
	<u>1,204,376</u>	<u>1,236,919</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 2023 assets totalling £275.2m which have been adjusted for cash inflows and outflows to 31 March 2023. 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 2023

23. Pension 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 2023 may differ from the figure reported in these accounts.

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	<u>22.7</u>	<u>(124.7)</u>	<u>40.8</u>	<u>41.5</u>	<u>(19.7)</u>
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	<u>(13.4)</u>	<u>46.0</u>	<u>(13.1)</u>	<u>0.2</u>	<u>19.7</u>
Expected closing position	<u>1,111.2</u>	<u>(1,744.9)</u>	<u>253.4</u>	<u>380.3</u>	<u>-</u>
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	<u>125.7</u>	<u>144.2</u>	<u>(107.9)</u>	<u>(162.0)</u>	<u>-</u>
At 31 March 2022	<u>1,236.9</u>	<u>(1,600.7)</u>	<u>145.5</u>	<u>218.3</u>	<u>-</u>

First MTR South Western Trains Limited

Notes to the financial statements (continued) Year ended 31 March 2023

23. Pensions liability (continued)

Reconciliation of movements:

	Assets £m	Liabilities £m	Shared Cost £m	Franchise Impact £m	Net £m
At 1 April 2022	1,236.9	(1,600.7)	145.5	218.3	-
Profit and loss account					
Operating					
Service cost	-	(83.5)	33.5	33.5	(16.5)
Admin cost	-	(3.6)	1.4	-	(2.2)
Total Operating	-	(87.1)	34.9	33.5	(18.7)
Financing	35.4	(43.6)	3.3	4.9	-
Total Income Statement	<u>35.4</u>	<u>(130.7)</u>	<u>38.2</u>	<u>38.4</u>	<u>(18.7)</u>
Amounts paid to/from scheme					
Employer contributions	18.7	-	(7.5)	7.5	18.7
Employee contributions	12.2	-	(4.9)	(7.3)	-
Benefits Paid	(46.6)	46.6	-	-	-
Total	<u>(15.7)</u>	<u>46.6</u>	<u>(12.4)</u>	<u>0.2</u>	<u>18.7</u>
Expected closing position	1,256.6	(1,684.8)	171.3	256.9	-
Gains/loss					
Change in financial assumptions	-	560.9	(224.3)	(336.6)	-
Change in demographic assumptions	-	-	-	-	-
Return on assets excluding amounts included in net interest	(52.2)	-	20.9	31.3	-
Experience	-	(111.7)	44.7	67.0	-
Total	<u>(52.2)</u>	<u>449.2</u>	<u>(158.8)</u>	<u>(238.2)</u>	<u>-</u>
At 31 March 2023	<u>1,204.4</u>	<u>(1,235.6)</u>	<u>12.6</u>	<u>18.6</u>	<u>-</u>

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 services totalling £nil during the year (2022: £nil).

MTR (UK) Limited, a company registered in England and Wales, and a wholly owned subsidiary of MTR Corporation Limited, provided services totalling £1.0m (2022: £1.6m) during the year.

25. 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.