

TransPennine Express termination fee agreed

May 11, 2021



FirstGroup plc has reached agreement with the Department for Transport on the termination fee payable for the TransPennine Express train operating company.

As previously indicated, a condition of the Emergency Recovery Measures Agreements put in place by the DfT to provide continuity for rail passengers and the industry during the coronavirus pandemic was that train operators and the DfT would work to agree whether any payment is required to terminate the pre-existing franchise agreements, and if so how much, based on a pre-coronavirus trajectory financial model.

The DfT and FirstGroup have now agreed the financial impact of the termination for TPE which requires a further FirstGroup contribution of c.£6m, over and above the £42.5m already paid into the operating company. The DfT has extended the TPE ERMA term until 19 September 2021, following their conclusion that no event of default would have taken place had the pandemic not occurred, although DfT and the Group are working collaboratively with a view to entering into a National Rail Contract in advance of that date.

As at 31 March 2020, £80m remained of the Group's contingent capital exposure to the TPE contract that had been provided for in the accounts as an impairment of Right of Use Assets under IFRS 16. Following today's agreement, this impairment provision will be released and will be credited to the income

statement as an adjusting item in the Group's accounts for the year to 31 March 2021.

The TPE agreement is the final termination agreement for the Group's train operating companies and follows the agreements reached for a FirstGroup contribution on South Western Railway of £33.2m and of nil on the West Coast Partnership (comprising Avanti West Coast and the HS2 shadow operator role), announced on 10 December 2020. Following this agreement, the Group is working towards agreeing directly awarded National Rail Contracts for each of the West Coast Partnership, TPE and SWR with the DfT. These will come into effect by the end of their respective ERMA's, when the pre-existing franchise agreements will terminate. This settlement reduces the overall financial risk within the First Rail portfolio.

The ERMA for SWR is in place to the end of May 2021 and the West Coast Partnership ERMA is in place until the end of March 2022 (both can be extended by a further half year at the discretion of the DfT). Latest indications from the DfT are that the new National Rail Contracts would have a core period to the end of May 2023 for TPE and SWR, (each with extension periods of up to two further years at the DfT's discretion), and up to 31 March 2032 for the West Coast Partnership (with the core and extension periods to be determined). As previously announced, the existing Emergency Measures Agreement for Great Western Railway ('GWR') has already been extended to June 2021, and the underlying GWR direct award runs to 1 April 2023 with an extension option of up to one year. There is no termination sum on GWR given that this contract was entered into after the transition to the Emergency Measures Agreements.

On 23 April 2021, the Group announced the proposed sale of First Student and First Transit. In that announcement, the Group stated that £345m in cash would be retained for the discharge of certain liabilities, including for the rail termination sums in respect of SWR and TPE. At the time of the announcement the Group made an assumption as to the TPE termination fee based on the best knowledge then available and the status of discussions with the DfT. The final agreement now reached with the DfT is c.£50m better than that assumption. The Board has committed to keep the balance sheet position of the Group under review, and in addition to the proposed return of value to shareholders described in the sale announcement and the shareholder circular published yesterday, the Board will consider the potential for making further additional distributions to shareholders in due course.

Commenting, Chief Executive Matthew Gregory said: "We welcome this agreement with the DfT, and are continuing to discuss a long-term National Rail Contract for TPE which will focus on passengers and operational performance, with a more appropriate balance of risk and reward. We are working closely with the Government and our other partners to ensure that TPE continues to provide the safe and vital services that are essential to communities across the North of England and Scotland."

Photo credit: TransPennine Express