London & Continental Railways Limited

Group Report and Accounts
31 March 2020

Company registration number 2966054

Contents

LONDON & CONTINENTAL RAILWAYS LIMITED

Directors & Secretary

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Chairman's Statement

Dear stakeholders,

I am in my first year as Chair of LCR and am thrilled to lead an organisation with such a rich history and heritage of regeneration, acquired over the previous 25 years, where we have the undoubted talent to contribute much more in support of government policy objectives. As we look forward to the future, we embark on a new strategy firmly grounded on generating public value through the creation of homes, jobs and societal benefits from regeneration and development. Working in collaboration with the public and the private sector, our new strategy focuses on identifying and bringing to market transport-related development opportunities to create great places for people to live, work and play.

LCR is positioned at the interface of the real estate and rail sectors, and our ability to work innovatively with both the public and private sectors, means we are able to identify and promote regeneration and development opportunities not obvious or intractable to others.

Regeneration in and around transport hubs provides a significant opportunity for levelling up the economy so that 'everyone gets a fair share of future prosperity'. As well supporting the reduction in the carbon footprint through more efficient use of the public transport, the Government has established ambitious housing targets of a million homes over the term of this Parliament. Rail-enabled regeneration projects in the larger cities and smaller suburban station sites have the capacity to unlock a significant number of homes across the country.

Our focus on regeneration at or near rail hubs and stations, where we have both the intimate understanding of local demographics and their evolving needs, as well as the creative vision to see and realise potential, means we can support local authorities in meeting the growing demand for high quality spaces. The current economic uncertainty and the anticipated impact on GDP output caused by the Covid-19 crisis reinforces, now more than ever, the relevance of our strategy to supporting economic stimulus.

Culture

As a purpose-led, values driven organisation our culture and people are critical to our sustained success over the long term. Having spent time during the year with staff at all levels across the organisation, I have been truly impressed by the level of engagement, commitment and dedication shown. There is a strong understanding of the strategic direction of business and a passion to achieve it. This fosters a willingness across the business to share ideas, engage with the change and place our stakeholders at the heart of what we do. As a Board, we are committed to supporting all to continue to build and continue to sustain this culture in the pursuit of our strategy.

Compliance with the UK Corporate Governance Code 2016 (the 'Code')

As a Public Corporation, LCR is not required to comply with the UK Corporate Governance Code ('the Code'). However, LCR has developed robust Governance procedures outlined in the Code and embedded best practices ensuring such principles and provisions are appropriate in a company similar in nature to the Company.

Chairman's Statement (continued)

Board Composition and Independence

in August 2019, I was delighted to welcome Mike Dunn as a Non-Executive and Chair of the Audit and Risk Committee. Mike brings a strong pedigree and demonstrable track record as an Executive and Non-Executive Director across a range of sectors including housebuilding. Nicky Wilden stepped down in August 2019, by which time she had served over seven years on the Board as a Non-Executive Director. I would like to thank Nicky for chairing the Audit and Risk Committee and for her significant contribution to the success of LCR and wish her well for the future.

The future

This year's performance is testament to the hard work and dedication of every member of the LCR team and on behalf of the Board, I want to thank everyone for their contribution.

LCR, like everyone else will have to deal with the consequences of Covid-19; the impacts of which could be far reaching. LCR will approach these challenges from a position of strength and we are determined to continue to transform our business to make the most of LCR's potential to deliver great homes, jobs and societal benefits through transport-enabled regeneration.

Nick Markham
Chairman
2 July 2020

LCR at a Glance

We are a UK Government-owned property and regeneration company, focused on creating new homes, jobs and economic growth from transport related assets, at or around rail hubs and stations. We use our skills in land assembly, placemaking and commercial development to unlock regeneration opportunities. Over the last 25 years, we have brought together multiple stakeholders to de-risk complex sites and attract investment across the UK. Examples of what LCR has achieved follow:

Manchester Mayfield

We are a partner in the £1.4bn redevelopment of the 24-acre Mayfield site adjacent to Piccadilly station, on the edge of Manchester city centre. A vibrant new city centre community for Manchester. LCR, Manchester City Council (MCC) and Transport for Greater Manchester (TfGM) have established a public-private JV with developer U+I to deliver a mixed-use scheme. Central to the development will be a major new park for the city alongside the remediated Medlock river, surrounded by up to 1 million sq. ft of new Grade A offices, plus 1,300 new homes, a hotel and retail facilities. The development recently achieved unanimous planning permission for Phase One, which incorporates the development's park, a 9- and 13-storey office building, and a 581-space multi-stores car park opposite Piccadilly Station

We were responsible for aligning all key stakeholders in the earliest development stages, creating a vision that delivered the best possible value for the public, the local community and the economy. This is an example of how we have worked to prepare a complex, long-term project for delivery, and of our commitment to remain actively involved throughout the development's lifespan.

The Axis, Birmingham

We are creating a new commercial centre for Birmingham. LCR is leading on the transformation of an underutilised space, dominated by a dated, T-shaped 1970s office block, delivering new, high-quality commercial and residential property space for Birmingham. The planned development will vastly improve connectivity with nearby locations in the city centre, and create a vibrant place to work, live, eat and shop in the heart of the city. The scheme is focused around wellness and best practice design. It will be fully integrated into the wider public realm, which will benefit the entire city.

LCR worked as a collaborative partner with the City Council to design a scheme that aligned closely with the strategy and economic needs of the city. LCR is in advance discussion with a tenant for two office buildings. LCR is now considering adding a hotel and approximately 500 residential units to the scheme.

The redevelopment of the Axis site in central Birmingham will create modern Grade A office accommodation, a hotel and around 500 residential units and new public amenities. With a 4.5-acre landscaped site with new public square. It is forecast to generate £300m for the regional economy, creating 7,000 permanent jobs, and a further 300 during the construction phases.

Waterloo, London

LCR is developing a progressive retail, restaurant and leisure destination and an example of best practice in transport hub development, located in the heart of London's South Bank. Set within the RIBA award-winning former Eurostar terminal at Waterloo, we are creating a great place, encapsulating the shift from station retail as just convenience shops to becoming retail destinations. The new scheme will help to attract new visitors to the Waterloo area and complement local business. It builds on the success of Leake Street Arches and reflects the independent, creative spirit of the area. The new development will

LCR at a Glance (continued)

Waterloo, London (continued)

feature a blend of established operators, clicks-to-bricks ventures, and independent retailers, complemented by a unique, experiential food and drink offering. The development is anchored by Time Out Market, offering a curated mix of the 'best of London'. With an annual footfall of 100 million, the development consists of 130,000 sq. ft of retail and leisure space. It will create 700 new jobs and has a projected GDV of £188m.

RTC Derby

The former Rail Technical Centre (RTC) in Derby has been transformed by LCR into a thriving new business park supporting Derby's nationally significant rail, aerospace and automotive engineering business cluster. Acting in partnership with Derby City Council, and supported by the Regional Growth Fund, LCR refurbished and redeveloped over 60,000 sq.ft of office accommodation, a total investment of £6.5m. RTC Business Park is now one of the city's major employment sites, offering 400,000 sq.ft of commercial space spread across 28 acres of landscaped grounds. Over 1,500 people now work on the park which contributes over £6m GVA to the local economy. LCR continues to invest in RTC Derby, recently adding a new café and conference suite and re-landscaping the site to improve the attractiveness and sustainability of the park. Forthcoming projects include the provision of a new purpose-built innovation suite for Innovation Derby housing a cluster of small high-tech growth businesses and managed in partnership with the University of Derby. Occupiers include Siemens, Network Rail, Loram, University of Birmingham and Atkins.

International Quarter London

Since 2011 LCR and Lendlease have been developing London's new home for modern business at the £2.4 billion International Quarter London (IQL). The development is delivering circa 4 million sq. ft of Grade A office space and over 600 new homes on 22 acres of land, located primarily between Westfield and the Queen Elizabeth Olympic Park. At the heart of thriving Stratford and forming a gateway to Queen Elizabeth Olympic Park, IQL has outstanding transport connections, shopping, leisure and sports facilities combined with open spaces and parklands. The development is the final phase of the original Stratford City masterplan to create a new metropolitan centre based around Stratford International. Once complete in 2025, over 25,000 people will work at this major new employment hub in East London.

Sheffield

LCR is working in partnership with Sheffield City Council, Transport for the North, Sheffield City Region and wider partners to develop a masterplan that will drive economic growth through maximising the development potential of Sheffield station and its surrounding land. The plans include delivering improvements to the front of the station and enhancing public realm, introducing greater pedestrian accessibility and walking routes into the city centre, as well as re-routing key tram and road links to the station to improve accessibility. It is expected that the work will create 3,000 new homes and 617,000 sq. ft of commercial space.

Leeds City Council

LCR is working in partnership with Leeds City Council and Network Rail to drive economic growth through the redevelopment of the city's train station. The plans include integrating the existing station with High Speed 2 (HS2) and Northern Powerhouse Rail (NPR), and identifying other development opportunities to contribute to city's South Bank regeneration area as well as to the existing station estate. Through four years of collaboration with the West Yorkshire Combined Authority (WYCA), Network Rail, Transport for the North and HS2, LCR and

LCR at a Glance (continued)

Leeds City Council (continued)

the Council, LCR has developed the Leeds Integrated Station Masterplan (LISM) – a comprehensive spatial plan to extend Leeds Station and redevelop the surrounding area.

It is expected that the work will create 2.4 million sq. ft of commercial space; 650 new homes; a 200 room hotel and see 35,000 jobs created. We are now concentrating on bringing forward the first phases of the masterplan.

Kings Cross

One of London's most successful regeneration stories, today Kings Cross is an ever-expanding hub of commercial activity and new homes. Yet since the 1970s, the area had been in decline. Whilst delivering High Speed 1 and the associated restoration of St. Pancras Station and St. Pancras Chambers, LCR, acting alongside Exel, appointed Argent as its development partner and worked with them to create a masterplan for the 67-acre site. In 2006 outline planning permission was granted for c.50 new building, 20 new streets, 10 new major public spaces, the restoration and refurbishment of 20 historic buildings and structures and up to 2,000 homes. Early infrastructure works began in June 2007, with development starting in earnest in November 2008. Much of the early investment was focused in and around the Victorian buildings that once formed the Goods Yard. In 2011 the University of the Arts London moved to the Granary Complex and parts of the development opened to the public for the first time. Since then, restaurants have opened, the Great Northern Hotel has been refurbished and residents have moved in. The historic Coal Drops have been redeveloped as a unique shopping destination and companies such as Google, Louis Vuitton, Universal Music and Havas are choosing to locate here. A whole series of new public squares and gardens have opened, among them Granary Square with its spectacular fountains, Lewis Cubitt Park and Square and Gasholder Park.

It is expected the work will create 50 new buildings, 1,900 new homes, 20 new streets, 10 new public parks and squares, 26 acres of open space with 42,000 people working there by 2022.

Chief Executive's Statement

The LCR way

In some ways we are a traditional property company; on the one-hand we regenerate and create great spaces to live, work and play and on the other we own high-quality, well located buildings across the UK which we regularly refurbish and redevelop. Our uniqueness comes from LCR sitting on the cusp of the public and private sector and our success lies in how we attract and retain partners and customers. It shows we embrace real collaboration and in doing so this differentiates our business model. We seek to work through partnerships, marrying our knowledge and experience to the needs of all our external stakeholders; our tenants, our shareholder, wider government and society.

This year we have re-positioned LCR. We have pursued a path of strategic evolution by defining where the business was at its best and which elements were core to its future success. We knew that transformation was fundamental, but we had to determine what was unique to LCR.

We began by listening to our employees and thinking in terms of 'strengths and stretches'; what were our strengths and how these aligned with our plans. Then we asked, 'where do we need to stretch?'. We reviewed our existing business model and over the course of the year worked on what we wanted the new one to be, by developing our business to be accountability led and underpinned by proportionate and right sized governance.

Building on our core strengths

LCR had successfully enabled the large-scale area-based regeneration project at King's Cross - St Pancras. Other area-based regeneration projects of scale include IQL Stratford with Lendlease, and at Mayfield in Manchester with U&I, Manchester City Council (MCC) and Transport for Greater Manchester (TfGM). At the same time LCR has managed an estate of retail and commercial assets across the UK.

The stretch introduced into the business is based on leveraging our development, planning, project management and partnership skills. In addition to our core business, LCR embarked on a strategy of promoting land at or around railway assets in the UK in conjunction with Network Rail, transport partners, local authorities and the private sector.

LCR continues to take actions aligned to our strategic priorities:

- investing in our managed estate to increase net rental income;
- forming partnerships and collaborations
- identifying key sites;
- assembling land to take it through planning; and
- working with our partners to bring these to the markets.

We are continuing to make organisational improvements and operational enhancements that simplifies and focuses the business, to build and capitalise on our 25 years of experience in the market.

Our successful, disciplined approach to investment and operations alongside cost control is delivering strong results. Our strategic target centres around the following:

Chief Executive's Statement (continued)

Build on our experience

Our reputation as a responsible and high-performing partner underpins our strategy. We are recognised for our success in providing high quality mixed-use environments, incorporating new homes helping to solve the UK's housing crisis and new workspaces to meet the changing needs of corporate occupiers.

We have a rich store of experience and activity to draw on and take forward, working with public sector partners (Network Rail, TfGM, MCC, LCC, SCC etc.) and private sector partners (Lendlease and U+I). We have generated a pipeline of projects for the next ten years that can generate returns in good times and in bad. We structure our transactions to respond flexibly to the market. We pursue value through various routes, in the range and scale of uses that we deliver and in the timing of entry and exit. We seek primarily to assemble land and seek consent, bringing in outside parties with the right expertise to take the development forward. We will also extract further value from repositioning our investment portfolio.

Grow rents

LCR has delivered resilient results in unsettled market conditions across its portfolio. The actions we have taken to improve the quality of our portfolio over the last few years have enabled us to deliver positive returns in the face of this wider uncertainty and caution.

We have made good progress on our retail development opportunity at Waterloo.London. The centre is anchored by Time Out Markets and we continue to receive strong expressions of interest from retailers, leisure and F&B operators in the international terminal at Waterloo station.

Financial performance

Revenue increased by 2% in the year to £32.2m (2019: £31.5m). Property sales increased by 25% to £9.3m (2019 £7.4m). Rental income is up 1% to £20.2m (2019: £20m). The value of our Investment property portfolio (excluding Right Of Use Assets) is £208.3m a decrease of 1.0% (2019: £210.3m). Our financial position remains resilient with cash of £78.6m (2019: £105.4m), the business remains ungeared.

Covid-19 and our response

Our operational response to Covid-19 was immediate, proactive and in line with action taken by other property owners. Our site teams continue to follow all guidelines issued by the relevant Public Health authorities. We have also acted swiftly to offer support to our tenants. In late March, we directly supported our customers most in need. At year end we paid our suppliers early and have undertaken to continue to pay small and medium suppliers promptly to help them survive the crisis. Further action will be required in the months ahead; we will continue to work together in partnership with our stakeholders.

The immediate impact of Covid-19 has been particularly significant on our retail and business park assets. Our Office assets have seen a less pronounced immediate impact with the vast majority of our customers' employees are now working from home however this may change in the future. Rent collection rates in March were impacted negatively in parts of the portfolio but we are working proactively with our tenants to resolve issues.

Chief Executive's Statement (continued)

The June quarter rent collection rates are likely to be worse than the March quarter as most of the negative economic impact from Covid-19 has fallen in the second quarter, notwithstanding the significant scale and intent of the Government's economic support measures. The speed of future recovery will vary by sector. The need for social distancing will impact some sectors much more than others, all businesses will need time to work with their global supply chains and workforces to resume trading as normal and increased levels of uncertainty amongst the general public will affect behaviour for many months to come. While it is too early to predict outcomes with any certainty, it seems prudent to plan for more business failures and higher vacancy rates across our property portfolio, and we do not expect to see the economy recover to pre-Covid-19 levels in this financial year.

Recognising that the effects of Covid-19 will be felt for some time to come, we will continue to take all possible proactive measures to ensure that LCR emerges from this crisis in a strong a position:

- We will control operating costs, across our business and within service charges. We want to do so sustainably and maintain service levels for our customers;
- We have substantial balance sheet capacity and will aim to preserve this to ensure that we can weather a prolonged downturn and therefore we are well placed to participate in any opportunities that emerge over time;
- We will control capital expenditure carefully so we can adapt our approach as the longer-term effects of Covid-19 become clearer; and
- We will work proactively with our customers and partners to find solutions that derive mutual benefit at such a challenging time.

We are also mindful that Covid-19 is likely to have profound long-term impact on society and, by extension, the property sector. Understanding, anticipating and responding to these likely impacts will be vital to the long-term success of LCR.

Investment strategy

We have clear criteria for where we invest, which enables us to allocate internal resources effectively, thereby contributing to our investment success. Our research and insight into local markets informs our capital allocation and allied to this our investment appraisal discipline ensures our projects can deliver both Shareholder and Public Value.

Delivering in partnership

LCR's heritage as a property developer has enabled it to forge partnerships with landowners in the public and private sectors and with developers. We have successful partnerships with Lendlease at IQL in Stratford, London and at Mayfield, Manchester with U&I, Manchester City Council (MCC) and Transport for Greater Manchester (TfGM).

During the year Manchester City Council granted planning permission for Phase 1 at Mayfield, Phase 1 will deliver extensive public space, including a 6.5 acre landscaped public park, a nine-storey 75,900 sq. Ft. office building, a 13-storey 244,000 sq. Ft. office building and a 581-space multi-storey car park in the heart of Manchester. This is the first major milestone at this £1.4 billion Gross Development Value scheme.

Network Rail and LCR have jointly established an ambitious programme to deliver new homes across England through identifying and delivering placemaking and development at and around railway stations. 'Low hanging fruit' on rail land has already been capitalised, so the new approach looks at opportunities through a

Chief Executive's Statement (continued)

different lens. It brings together Network Rail owned land, other Public sector land and land owned by the private sector to create a critical mass for development and make more effective and valuable use of the land combined.

The LCR & Network Rail collaboration has to date seen us review 560 sites for development potential and in addition, the LCR &Transport for Greater Manchester (TfGM) collaboration has seen us review 96 sites. We are continuing to review the remaining 1,900 stations across England, and in time these collaborations will release land that can support many thousands of homes We look forward to replicating these collaborations and partnerships where they bring access to land to support LCR's growth strategy.

Enhancing asset management operations to secure our position

As part of our Asset Management Strategy, we have put in place investment to maintain and enhance our portfolio reduce our carbon footprint and deliver improved tenant satisfaction. We are seeing signs of the benefits of these investments, with lower voids and arrears, maintained customer retention, increased customer satisfaction and efficient levels of property operating costs.

Investing in our people

Without the dedication, commitment, expertise and enthusiasm of our people, LCR could not do what it does so successfully. Nor would we have the confidence in our future and our growth plans, were it not for those that make up the organisation. We recognise the importance of our people and of attracting and retaining the best.

We run an employee engagement programme. This includes a comprehensive annual employee survey and I am pleased to report that we have a sustainable engagement level of almost 80%. But we are not going to stop there, over the coming months we are putting in place actions that will enable us to participate in and secure a position in the UK's best small businesses to work for. We have made great progress across all areas of the business. Colleagues are committed to our vision, live our values, and come to work focused on delivering great places. LCR's success is as a direct result of our ability to attract, retain and develop highly talented individuals.

Priorities for the financial year ahead

LCR like everyone else will have to deal with the consequences of Covid-19, and the macro economic impacts and societal change this will bring. However, LCR approaches these challenges from a position of strength and we are determined to make the most of LCR's potential.

Our ambition remains from challenging sites, we enable the creation of great places to live work and play for the benefit of society. We are well on our way, yet we recognise there is much still to do. I am optimistic about our outlook and my thanks go to the Board and our shareholder for their ongoing support but, most importantly, I thank the LCR team for all their outstanding efforts.

Peter Hawthorne
Interim Chief Executive
2 July 2020

Our Market and Strategy

Purpose, strategic intent and 'Public Value'

'...From challenging sites, we enable the creation of great places for the benefit of society...'

LCR operates at the interface of the Rail, Real Estate, Public and Private Sectors. We are unique in that we understand how the various sectors work and we can work with all sectors. We use our knowledge and experience of those sectors to identify opportunities not obvious to others, to overcome problems that others may consider intractable and through this create value which we share. We have the ability to act as the "guiding mind" for the delivery of a significant programme of development at and around stations working in partnership with public and private sectors. We have identified the opportunity through the creation of our strategy to deliver in excess of £7bn Public value from the work we will do.

The market in which we operate

The UK has a population of 66 million (Source: ONS 2017) expected to reach 74 million by 2039; a 12% increase on today. Over 80% of this is currently urban, predicted to be close to 85% in 2039. This is putting further pressure on towns and cities, which need to provide the additional infrastructure, public places, services and amenities to meet demand. Crucially it is also driving the need for new and affordable housing, which the Government has committed to address by targeting building 300,000 new homes a year. On the supply side, brownfield sites in England could provide more than 970,000 homes, but 40% don't yet have planning permission.

A key focus is attracting and retaining talent and supporting innovation in the UK, by providing the infrastructure and quality mixed-use spaces where people are proud to live, work, play and study. Creating thriving new neighbourhoods that promote four of the major economic growth drivers – talent, transport, tolerance for diversity and tourism – bringing jobs, driving productivity and stimulating local economies. Businesses have to stay relevant to growth trends and modern, constantly changing living, working and shopping habits. Consumers will continue to visit those places providing either a rich customer experience with a mix of shopping, leisure, culture and community, or convenience as instant purchases will also have their place. Talent will be attracted to those businesses that provide the best environments, work-life balance, transport and amenities to make life as enjoyable and manageable as possible.

LCR response

We look for places that we can improve, many of them under-loved or overlooked. Typically, these sites are too complex for REITs and too mixed in use for housebuilders, but they suit us perfectly. We believe developments can only work when people are prioritised, so we take the time to delve into the history and character of these sites and reflect these in our schemes. We will partner with the private or public sector, local authorities and central/local government; to generate optimal returns from existing assets and unlock their potential

We work closely with communities and partners from the outset to ensure we are creating places that will meet the daily needs of the different generations. Quality and sustainability are key. We understand the importance of accessibility, working with our partners to ensure public transport, road, cycle and walking access open areas. The amenities available must also meet modern flexible living/working habits to encourage closer communities in the long term and support growth.

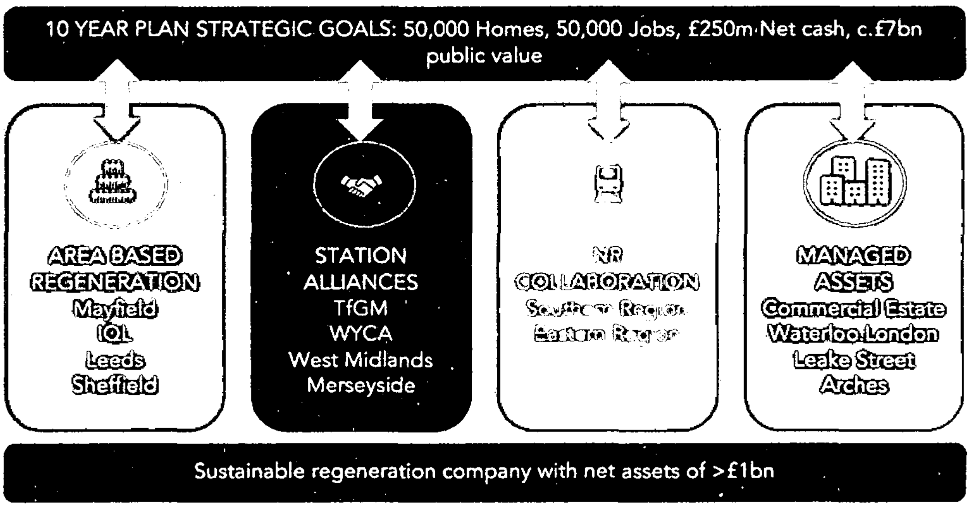
Our Market and Strategy continued

Our size flexibility means we can anticipate change and respond to it quickly. We foster close relationships with the public and private sector and regulators, many of whom know us well. We are thought leaders on the major issues, working collaboratively towards policies and a regulatory framework that will support our shared goal of helping local communities to prosper. The need for quality (and affordable) housing, office and leisure space will continue regardless of leadership or politics.

Our schemes encourage more healthy, active lifestyles and help cultivate a sense of community. Typically, they offer green space to encourage cycling and walking and a range of leisure amenities – such as gyms, yoga studios, bike facilities and entertainment. Design, automation and energy management systems are created to optimise comfort, environmental quality and sustainability and, in turn, productivity.

Our 25-year track record and successes to date gives us an edge and provide unique access to public and private sector opportunities. Our focus on regeneration at or near Rail hubs & stations, where we have both the intimate understanding of local demographics and their evolving needs, as well as the flexible approach and creative vision to see and realise potential, mean we can support local authorities in meeting the growing demand for high quality spaces.

Strategy Goals



LCR's strategy reflects four main pillars of activity:

- Area based regeneration projects: Manchester Mayfield and IQL, the JV with Lendlease at Stratford;
- Place-based alliances e.g. Transport for Greater Manchester (TfGM)
- Network Rail (NR) collaboration; and
- Managed assets.

We will continue to explore other opportunities as our plan unfolds, but by focusing on these four pillars of activity we are targeting our strategic goals referenced at the top of Figure 1, the end result being that at the end of a 10-year period we will have grown LCR to become a sustainable regeneration company with net assets of over £1bn.

Financial Review

Overview

While the Covid-19 pandemic only manifested itself in the final month of this financial year, its impact on our financial performance has not been pronounced. Our underlying performance and asset base remain robust. We have continued to invest in our asset base, but this has been offset by some market movements in asset values at the end of the year and by a reappraisal of our Waterloo.London scheme, notably for ongoing service charges. These movements offset our year on year increase in gross profit to result in a £10.9m loss before tax this year. Our balance sheet remains strong and our £78.6m of cash gives us plenty of capacity to withstand any reduction in cash flow from rents and enable us to continue to progress our strategy.

As part of the preparation of our financial statements, there has been a focus on our going concern assessment. Further information on our approach and the results of our assessment is included in Note 1 of the financial statements.

The UK lockdown has impacted the level of recent rent collections, leading to increased provisions for year end debtors although the rent predominantly relates to the early part of 2020/21. We expect reduced rental payments to continue into the new financial year. We are working closely with our managing agents and customers during this difficult time.

Financial Review of 2020

Income statement

The Group's revenue increased by 2% to £32.2m (2019: £31.5m) as a result of the continued growth in its rental income and cost recoveries. Gross profit increased by 15% to £21.2m (2019: £18.4m) Administrative costs increased to £8.9m (2019: £6.1m) reflecting the recruitment of additional employees and establishment costs to support the Company's continuing growth, an increase in the bad debt provision and the release of accruals no longer required in prior year.

The Group made an operating loss in the year of £10.9m (2019 profit: £29.9m), with downward property revaluations of £23.1m offsetting an increasing gross profit. In 2019 we were able to release an onerous lease provision (£40.3m), offsetting what would have been a similar prior year position.

Valuation of investment properties

Our underlying portfolio (excluding IFRS 16 Right Of Use Asset) has declined in value by 0.9% to £208.4m (2019: £210.4m).The external valuation of our portfolio at 31 March 2020 contains a material uncertainty clause from Avison Young, which post Covid-19 is in line with the RICS guidance to valuers and simply reflects the increased difficulty in determining asset values when few, if any, comparable transactions have occurred in the new trading environment. There is more information on this included in Note 9.

Balance sheet

Our net assets declined over the year ended 31 March 2020 primarily due to the reduction in property values and the cash expended on developments, operations and dividends during the year.

Movement in cash

Net cash generated from operations was £0.2m (2019: (£5.7m). Capital expenditure was £23.9m (2019: £66.8m) largely spent on our development Waterloo.London. Net cash inflows from disposals totalled £14.1m (2019: £6.2m) from the sale of investment properties and land. A dividend of £18m (2019: £0m) was paid to our parent the DfT during the year.

Financial Review – (Continued)

Changes in accounting policy

The Group adopted IFRS 16 Leases on 1 April 2019. The Group's revised accounting policies and the impact of the change in accounting policies on the financial statements is detailed in Note 1.

Alan Peelo
Interim Director of Financial Control
2 July 2020

Viability Statement

In accordance with provision C.2.2. of the UK Corporate Governance Code, the Board has assessed the prospects of the Group over a longer period that the 12 months that has been required by the 'Going Concern' provision. In doing so, the Board considered the Group's current position and the potential impact of our principal risks and future prospects. This included interrogating the financial models and related sensitivity analysis of various economic scenarios.

LCR Business Model

LCR's business model is to deliver returns through asset management, regeneration and land promotion, thereby realising rental income and reinvesting profits to transform undervalued land and assets into new places that deliver social and economic value to a wide range of stakeholders.

The key drivers in delivering the model are as follows:

- Developing a pipeline of new business opportunities through partnerships, JVs and collaborations which can deliver future profits;
- Maintain sufficient funding to pursue new business opportunities and seek new sources of funding where appropriate;
- Access capital partners to co-invest in larger schemes and forward fund developments;
- Successfully promote land through securing new planning permissions;
- Maintain and grow the investment portfolio generating a sustainable income to support business activities and sustain corporate overheads; and
- Maintaining a diversified portfolio of projects and locations so as to reduce property specific risk across the overall portfolio.

Assessment period

The five-year assessment period reflects lease lengths or rent review patterns across the majority of our portfolio and the majority of our development projects have a duration of between two and five years from inception to hold/exit. Whilst the Directors consider prospects over a longer period in the execution of our strategy, we consider this assessment horizon strikes the optimum balance between planning for the longer term and the progressively unreliable nature of forecasting in later years. The Directors confirm that they have no reason to expect a material change in the Group's viability immediately following the end of the five-year assessment period. Therefore, for the purposes of this review, the business has been considered and stress tested over a five-year period.

Assumptions

In assessing the long-term viability of the Group, the Board has made the following assumptions:

- After an initial fall in 2020/2021, property investment valuations are then broadly stable with no prolonged significant downwards movements;

- The Group continues to be able to deliver cash-backed development and trading gains from its existing portfolio of projects sufficient to meet its operational requirements, principally driven by securing new planning permissions;

Viability Statement (Continued)

- The Group continues to be able to source new business opportunities capable of delivering both short-term trading gains and longer-term development gains to replace existing projects as they are exited;
- The Group continues with its policy of maintaining a broad range of counterparties, including financial, contractor and purchaser, so as to mitigate the impact of potential counterparty failure;
- The Group continues its policy of de-risking developments by obtaining forward-funding for larger schemes and only carrying out limited on-balance sheet development; and
- Construction contracts are entered into on a guaranteed maximum price basis where possible.

The Group maintains its current conservative 0% gearing strategy.

In addition, the Group's five-year business model was stress-tested to simulate either a deterioration in market conditions or a flexing of these assumptions, as detailed below. In particular, consideration was given to the following:

- A fall in the value of property sales 15%, 30% and 45% per annum for each of the next five years and the resultant impact upon cash levels;
- Inability to win any new business opportunities over the next five years - hence the only profits that can be generated are from existing projects;
- A reduction in occupancy levels of 40% on the asset management and specific scenario planning our major developments; and
- A delay in all property sales by one year.

Conclusion

As the Group is ungeared it does not have to manage a debt facility, but this means that the Group does not have access to borrowings. To mitigate this risk, the Group continually reviews funding requirements and maintains a close relationship with existing and potential funding partners (e.g. Homes England, DfT) to ensure the continuing availability of funding.

There are a number of mitigating factors that were not considered in the scenarios tested but which could be actioned:

- Disposal of assets;
- Reduction in dividend; and
- Reduction in refurbishment/investment programme.

As a result of the risk mitigation factors available to the Group and the work performed above, including the consideration of the key assumptions and the subsequent stress testing, the Board believes that the Group's strategy of maintaining a broad portfolio of development and trading projects, a core investment portfolio and a diverse range of financial and operational counterparties provides the Group with a strong platform on which to continue its business. The Directors therefore have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period to March 2025

Corporate Governance

Board Changes during the year

There have been a number or changes to the Board during the year. Peter Hawthorne was appointed as Interim Chief Executive on 1 April 2019. On 2 April 2019 Nick Markham was appointed Chairman of LCR. On 11 August 2019 Nicky Wilden resigned as Non-Executive Director. On 12 August 2019 Mike Dunn was appointed Non-Executive Director.

The Directors set out in this report how the principles of good governance are applied within LCR. The Company is a private limited company and during the year the Secretary of State for Transport was the sole shareholder in the Company. Whilst LCR are not required to comply with the UK Corporate Governance Code ('the Code'), LCR has taken account of the Code to develop its governance procedures. The Company complies with the principles and provisions set out in the Corporate Governance Code provided always that such principles and provisions are appropriate in a company similar in nature to the Company.

LCR operates under a Financial Framework Agreement with the Department for Transport, which was last renewed in October 2016, and whose provisions include:

- Governance of LCR by DfT;
- LCR's Board and general principles;
- LCR's Budget, Business Plan and Reports; and
- Principles governing the LCR/DfT relationship.

The Workings of the Board and its Committees

The Board met six times in the year. The Board ensures the Group has adequate funding in place by monitoring (through regular reporting from the Executive Director and Senior Management) the sources and levels of funding available to the Group. Board members receive management accounts of the Group and a written report on funding at each Board meeting. During the year the Board comprised the Non-Executive Chairman (Nick Markham), Interim Chief Executive (Peter Hawthorne), the Senior Independent Non-Executive Director (Tim Garnham) and two other Non-Executive Directors (Nicky Wilden to 11 August 2019, Mike Dunn from 12 August 2019) and Alex Reeves[1]). Tim Garnham was chairman of the Remuneration Committee and Nicky Wilden chaired the Audit & Risk Committee to 11 August 2019, with Mike Dunn taking over the chair of the Audit & Risk Committee from 12 August 2019.

The dates of the LCR Board Meetings and the attendances at them are set out below:

Name	13/06/19	11/07/19	25/09/19	21/11/19	23/01/20	25/03/20
N Markham (c)	a	a	a	a	a	a
M Dunn		a[2]	a	a	a	a
T Garnham	a	a	a	a	a	a
P Hawthorne	a	a	a	a	a	a
A Reeves	a	a	a	a	a	a
N J Wilden	a	a				

[1] Appointed by the Secretary of State. Responsible for communicating the views of the Secretary of State and the DfT's wider strategic statutory and fiduciary interests to the board, whilst acting in accordance with his duties as a NED.

[2] Note Mike Dunn attended these meetings by invitation of the Chairman; he assumed post on 12 August 2019

Corporate Governance (continued)

The Non-Executive Directors meet without the Executives present from time to time. At all times during the year, the number of Non-Executive Directors on the Board exceeded the number of Executive Directors.

The Non-Executive Directors, with their wide range of backgrounds and experience, are of sufficient calibre and character to bring independent judgment to bear on issues of strategy, performance, resources and standards of conduct, with experience relating to property transactions. The Directors consider that during the year Nick Markham, Tim Garnham, Alex Reeves, Nicky Wilden and Mike Dunn are all independent.

Appropriate insurance cover is in place in respect of legal action against the Group's Directors.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that the Board procedures and applicable rules and regulations are followed. The appointment and removal of the Company Secretary is a matter for the Board as a whole. The Directors can take independent professional advice at the expense of the Group if they consider it necessary.

The Non-Executive Directors have a responsibility to ensure that the strategies proposed by the Executive Director are fully considered. All Directors receive appropriate and timely information to enable them to fulfil their duties; briefing papers are distributed to all Board members by the Company Secretary in advance of meetings.

Audit and Risk Committee

The Audit & Risk Committee comprises all the Non-Executive Directors of the Company and during the year all members of the Committee were considered by the Directors to be independent.

The dates of the Audit & Risk Committee meetings and the attendances at them are set out below:

Name	13/06/19	11/07/19	25/09/19	21/11/19	30/01/20	25/03/20
N J Wilden (c)	a	a				
M Dunn (c)		a[3]	a	a	a	a
T C Garnham	a	a	a	a	a	a
P Hawthorne	a	a	a	a	a	a
N F Markham	a[4]	a[5]	a[6]			
A L Reeves	a	a	a	a	a	a

At least one member of the Committee has recent and relevant financial experience. The Committee's formal terms of reference were adopted by the Board in 2008 and re-confirmed in 2017. The Committee met six times in the year. The Committee monitors the integrity of the financial statements of the Group, reviews the internal financial controls and the internal control and risk management systems. It provides a forum for reporting by the Group's external auditor.

[3] Mike Dunn attended this meeting by invitation of the Chair of the Audit and Risk Committee; he assumed post on 12 August 2019

[4] Nick Markham attended this meeting by invitation of the Chair of the Audit and Risk Committee

[5] Nick Markham attended this meeting by invitation of the Chair of the Audit and Risk Committee

[6] Nick Markham attended this meeting byinvitation of the Chair of the Audit and Risk Committee

Corporate Governance (continued)

Audit and Risk Committee Activities

The Committee meets and/or discusses matters with the external auditor at least once a year without the Executive Directors present. The Audit & Risk Committee is chaired by Mike Dunn. The Committee considers that it is not necessary for an organisation of LCR's size to maintain an internal audit function in-house. The Committee instead looks to commission independent audits of areas of Audit Committee focus.

During the 2019/20 year, the key issues considered by the Committee were Counter Fraud, Bribery and Corruption, the Risk Register, and assessment of future internal audit priorities.

The Committee has reviewed the annual audit plan and the interim audit procedure report. The Committee has reviewed the risk identification process and audit delivery against the audit plan. It should also be noted that the Director of Financial Control attends Audit and Risk Committee meetings to ensure that auditor performance is communicated effectively. Based on this, the Committee can report that the external audit process is working effectively.

No non-audit services were provided within the prior or current year by Mazars. In addition, the Audit & Risk Committee receives each year a letter of confirmation from the external auditor confirming that, in its professional judgement, it remains independent within the meaning of its regulatory and professional requirements and that its objectivity is not impaired.

The Committee can therefore confirm that it has discharged its responsibilities appropriately.

Nomination Committee

The Nomination Committee is responsible for all aspects of the appointment of Directors of the Company and comprises all Non-Executive Directors. The duties of the Committee and the details about the nomination process are set out in the Committee's Terms of Reference.

The dates of the Nomination Committee meetings and the attendances at them are set out below:

Name	13/06/19	11/07/19	25/09/19	21/11/19	30/01/20	25/03/20
T C Garnham (c)	a	a	a	a	a	a
M Dunn	a[7]	a[8]	a	a	a	a
N F Markham	a	a	a	a	a	a
A L Reeves	a	a	a	a	a	a
N J Wilden	a	a				

[7] Mike Dunn attended this meeting by invitation of the Chair of the Nomination Committee, he assumed post on 12 August 2019

[8] Mike Dunn attended this meeting by invitation of the Chair of the Nomination Committee, he assumed post on 12 August 2019

Corporate Governance (continued)

Remuneration Committee

The Remuneration Committee comprises all Non-Executive Directors and is chaired by Tim Garnham. Formal terms of reference of the Committee were adopted by the Board in 2008 and re-confirmed by DfT in 2016. The Committee met several times during the year. The Board has delegated to the Committee responsibility for setting the remuneration of all Executive Directors including pension rights and any compensation payments. It recommends and monitors the level and structure of remuneration for senior management. The Board considers the remuneration of the Non-Executive Directors.

The dates of the Remuneration Committee meetings and the attendances at them are set out below:

Name	13/06/19	11/07/19	25/09/19	21/11/19	30/01/20	25/03/20
T C Garnham (c)	a	a	a	a	a	a
M Dunn	a[9]	a[10]	a	a	a	a
N F Markham	a	a	a	a	a	a
A L Reeves	a	a	a	a	a	a
N J Wilden	a	a				

The remuneration of the Executive Directors is designed to align their interests with the objectives of the Group including its corporate objectives, and to incentivise them to perform at the highest level. The levels of remuneration for the Non-Executive Directors reflect their time commitment and responsibilities of their role, including the chairmanship of committees of the Board.

Share options are not available to the Directors.

The Group has not adopted a formal policy on the duration of Executive Directors' service contracts, which in practice have no fixed termination date, but which provide for periods of notice of termination on either side. Non-Executive Directors typically serve for a three-year period, which in line with the Code, can be extended twice.

[9] Mike Dunn attended this meeting by invitation of the Chair of the Remuneration Committee, he assumed post on 12 August 2019

[10] Mike Dunn attended this meeting by invitation of the Chair of the Remuneration Committee, he assumed post on 12 August 2019

Corporate Governance (continued)

Risk management

The Group seeks to continuously improve its risk management and operates an agreed Risk Management Framework. This sets out the Group's approach to the management of corporate risk, the roles and responsibilities in respect of risk management and the process by which risks are assessed and, if appropriate, escalated.

The Executive Committee, which meets formally each month, supports the Chief Executive in day-to-day identification of risks and in the management of risks in accordance with the framework. The Executive Committee reports to the Audit & Risk Committee and the Board with regards to the management of the high-level corporate risks.

The Audit & Risk Committee reviews the effectiveness of the risk framework to ensure that the aims, objectives and key targets of the Company are achieved in the most economic and effective manner.

The Audit & Risk Committee carries out an annual assessment of the robustness of risk management processes. The most recent review was carried out at the March 2020 meeting. Risk management processes were found to be robust.

The Board through the Audit & Risk Committee and Executive Director is responsible for ensuring that high standards of corporate governance are observed at all times and that an appropriate and active risk management framework remains in place. The Board agrees and periodically reviews the management of the corporate level risks and provides leadership on risk management engendering a "no surprises" culture regarding risk within the organisation.

The major risk and uncertainties can be found on page 23.

Internal Control

The Accounting Officer for LCR is Peter Hawthorne, the Interim Chief Executive, who shares with the Board of LCR the responsibility for maintaining a sound system of internal control that supports the achievement of the Company's objectives and acts to safeguard the public funds and the Group's assets for which he is responsible, in accordance with the responsibilities under the Government document 'Managing Public Money'.

The Audit & Risk Committee is responsible for assessing the Company's system of internal control, for reviewing its effectiveness, and for making recommendations on internal control issues to the Board. The internal control systems are designed to provide reasonable, though not absolute, assurance against the risks faced by the business including material misstatement, loss and fraud.

The Board retains responsibility for financial risk identification and compliance matters and receives regular reports in all these areas including treasury and investment matters. Formal control is exercised through a management structure which includes clear lines of accountability and documented financial delegations of authority from the Board. These are subject to periodic review.

Corporate Governance (continued)

The Group's overall management process integrates the role of the Board, its Committees and the LCR Executive Committee which meets monthly to consider all key business issues including safety. The Group prepares an annual budget, performance against which is actively monitored by the Board.

The system of internal financial controls in LCR is monitored by the Interim Director of Financial Control and the Chief Executive who are accountable to the Audit & Risk Committee. In addition, the external auditor reports to the Audit & Risk Committee matters regarding internal financial controls which arise as a result of its audit work. No material weaknesses in the system of internal financial control have been identified by these reviews.

The Group is required to undertake a regular review of its internal control systems. The review process within LCR continues throughout the year. To the extent that significant risks, failings or control weaknesses arise during the year, appropriate action is taken to rectify the issue and implement controls to mitigate further occurrences. The external auditors report to Audit & Risk Committee on control weaknesses identified during the year end audit. The audit process in respect of the financial results for the year ending 31 March 2020 did not identify any significant control weaknesses

The Group is required to assess its financial viability over a period significantly longer than 12 months. The Board carries out this task by undertaking an annual review of the LCR business plan. Following the review of the business plan, which took place in March 2020 and a further post Covid-19 review by the Audit and Risk Committee in June 2020, which was reviewed by the Board, the Board is satisfied that these accounts be prepared on a going concern basis.

Major risks and uncertainties

Managing our principal risks and uncertainties

The Directors have systematically assessed the Group's principal risks. Our opinion is that the Company's exposure to this risk is not materially higher than similar UK-focused businesses. As at the date of this report, there is much uncertainty regarding the impact of Covid-19 and what this will mean for trade, our economy and the future political landscape. In response to Covid-19, all of our employees are now working from home. Overall this transition has been smooth from a technology and communications point of view. We have not seen any significant impacts on employee productivity, although we are carefully monitoring employees' physical and mental wellbeing.Covid-19 is a risk to the business in the context of wider geo-political and economic uncertainty, and the impact this may have on the real estate and capital markets. This being so, the potential risks of Covid-19 are specified in respect of a number of our principal risks.

Principal risks, uncertainties and opportunities

Risks are considered by the Board as an intrinsic part of strategy setting and consideration of new opportunities.

Category of risk	**Risk description**	**Impact on strategy**	**Mitigations**	**Risk status**
People	Failure to attract, retain and develop our people thereby ensuring the right skills in the right place at the right time for our strategy; failure to increase female and ethnic minority representation at senior levels within the organisation	Reduced ability to achieve business plan and strategy; reduced control; inability to grow; failure to innovate and evolve to be responsive to the market; impact on our reputation.	We have succession plans and retention strategies for key staff. Every staff member has a development plan and we provide internal career progression. We have a learning and development programme, which includes coaching, management and leadership training. We carry out quarterly performance reviews of staff. We undertake an annual employee engagement survey.	↓
Market	Weak macro-economic transactional conditions leading to tenant vacancies, negative valuation movements and the inability to transact on acceptable terms. This could arise due to poor market conditions associated with the cyclical nature of the real estate sector or potentially negative consequences arising from Covid-19.	Economic uncertainty leading less demand for assets that we are looking to dispose of; pressure on rental and occupancy levels; falling asset values; subsequent investment constraints on further investment. Unable to provide shareholder with sustainable returns in the medium to long term	We have a geographically diverse portfolio and exercise active asset management to enhance returns. We have a portfolio of diverse assets to enable sales where necessary. The focus on land promotion potentially leverages greater partnership flexibility and lower overall financial commitment compared with direct development.	↑

Major risks and uncertainties (continued)

Principal risks, uncertainties and opportunities (continued)

Category of risk	Risk description	Impact on strategy	Mitigations	Risk status
Financial	The inability to obtain sufficient finance arising from external factors/events (including, but not limited to, Covid-19) which impacts the ability to fund the delivery of the strategy and maintain a strong capital structure.	Lack of finance, through delayed/lower cash sales coupled with income and cost over-runs deplete cash resources; thereby hampering ability to pursue the land promotion strategy, at the relevant time.	We monitor our cash closely to maintain sufficient capacity. We carry out detailed financial viability sensitivity testing and develop clear mitigation contingency plans. We have continued to develop a relationship with Homes England. We conduct our business within Board-approved capital operating guidelines. We have a portfolio of diverse assets to enable sales where necessary. Due to our close monitoring of the transactional pipeline, we can control the timing of investments to reduce cash outflows if needed. Our strategic focus is to increase our asset management income and achieves asset sales to provide greater financial headroom	↔
Strategic relationships with our partners	We work with a number of strategic partners through joint ventures, partnership and collaboration arrangements. Maintaining effective relationships and trust is a key element of our success. A breakdown in those relationships and hence the trust of our partners, could result in an inability to deliver our business plan particularly in relation to the delivery of our JV and transport pipelines.	Poor partner relations and performance could constrain the pursuit of the land promotion strategy and lead to sub-optimal outcomes in the JVs. Commensurate with that is a possible negative impact on our reputation as a partner of choice.	Regular partner and stakeholder engagement. Robust joint venture governance processes to support compliance and performance Executive management oversight through formal reports to *Commercial and Investment* Committee and Board.	↓

Directors' Report

The Directors present their report, together with the accounts of the Group for the year ended 31 March 2020.

Principal activities

The London & Continental Railways Group had the following main activities which were carried out through the Company, its subsidiaries and associates:

- to manage our portfolio of assets to deliver on the Government's drive for homes, jobs and growth;
- to manage the Group's interests in the redevelopment of the substantial sites at Stratford and Manchester Mayfield through joint venture arrangements;
- to extract optimum value from the Group's property assets;
- to manage certain assets on behalf of DfT;
- to develop our property assets; and
- to settle remaining ex-HS1 property interests and obligations.

Basis of preparation

The financial statements are prepared under International Financial Reporting Standards as adopted by the European Union.

The Directors consider that the report and accounts, taken as a whole, are fair, balanced, and understandable.

Going Concern and Covid-19

At a time of such significant upheaval to our normal way of life, it is natural that there is a heightened degree of uncertainty. The external valuation of our portfolio at 31 March 2020 contains a material uncertainty clause from Avison Young, which is in line with the RICS guidance to valuers and simply reflects the increased difficulty in determining asset values when few, if any, comparable transactions have occurred in the new trading environment. As part of the preparation of our financial statements, there has been a focus on our going concern assessment. The Directors consider the going concern basis to be appropriate because the Group and Company have adequate cash reserves to settle their obligations and has the support of its shareholder. Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Further information on our approach and the results of our assessment is included in Note 1 of the financial statements.

Results and dividends

LCR's Consolidated Statement of Comprehensive Incomes is set out on page 35 and shows a loss before tax for the year of £10.9m (2019: profit £47.5m).

During the year, a dividend of £18m (2019: nil) was paid to DfT.

Directors' Report (continued)

Post balance sheet events

There have been no significant subsequent events that require adjustments in this Annual Report. In providing disclosure around non-adjusting events we are seeking to provide users of the financial statements with further information to assess our financial position. There are three significant non adjusting subsequent events that require disclosure.

Transaction at IQL Stratford

On 1 July 2020 LCR completed a transaction with its JV partner Lendlease at IQL Stratford, as part of this transaction LCR received a combined land and cash consideration of £56.4m and Lendlease received a land consideration. The parties have agreed that going forward LCR will control and focus on the North part of the project, which is as yet undeveloped land to the north of Stratford station. Lendlease will control and focus on further developing the South part of the project, where development at IQL has been concentrated to date, close to the London Stadium

The JV relationship between LCR and Lendlease at IQL Stratford continues. Both partners will continue to work closely together to deliver the overarching vision for IQL. Lendlease and LCR will also both continue to hold interests in the buildings and management companies for development that has been undertaken to date at IQL.

Impact of Covid -19

The outbreak of the Covid-19 has impacted rent revenue on some of our sites. In the quarter to June 2020 the property market has slowed down with few transactions taking place. Whilst we cannot be certain how long this situation will last; we anticipate that this will have an adverse effect on our asset values and potential recoverability of our customer balances, but it is too early to determine the overall impact.

Our focus remains on taking actions and precautions to help ensure the safety and wellbeing of our customers and employees. We continue to monitor the situation, will act swiftly where necessary and are extremely grateful for the incredible effort of our team, customers, suppliers and shareholder in dealing with this global health emergency.

Waterloo.London

Elongation pressure, the complexity of repurposing an existing structure and the interface with Network Rail's operational station have all contributed to increased costs at our development at Waterloo in the range of £15m - £17m.

Review of business and future developments

The Chief Executive's statement on pages 6 to 10 sets out the review of business and future developments.

LCR is owned by the Secretary of State for Transport and continues to operate in line with a Financial Framework Agreement which was last updated by the DfT in October 2016.

LCR expects to continue to derive investment growth and income from its property development and investment interests.

Directors' Report (continued)

Government classification

LCR is a public corporation and has been a wholly owned entity of the Secretary of State for Transport since 2009 when the Group's shares were acquired by the Secretary of State and the Group's Government-guaranteed debt was taken into the public sector.

Financial instruments

The main financial instruments the Group holds at 31 March 2020 are:

- cash deposits, and short-term investments held with fund managers; and
- trade debtors, trade creditors, and other instruments incidental to the Group's operations.

The Group holds cash in order to fund both its legacy obligations and its ongoing property-related activities. Funds not immediately required for the Group's operations are invested at fixed and floating interest rates, either through managed funds or Group-managed deposits, all denominated in sterling. The types of financial

instrument used for investment purposes must be approved in advance by the Board prior to obtaining the consent of the Secretary of State. The Board also sets down limits, both in terms of capital invested and market price risk, for this activity. During the year, the only investment instruments held were listed debt securities and bank deposits.

The risks arising from the Group's financial arrangements are low, but there remains a degree of interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group was debt free throughout the year with surplus funds invested at market rates.

Liquidity risk

The Group's objective is to ensure that sufficient funding is available for the exploitation of its property portfolio and for remaining legacy liabilities.

The funds which are not being used currently have been invested in managed funds with a range of maturities to match commitments.

Currency risk

At 31 March 2020 the Group has minimal exposure to currency risk.

Credit risk

The Group's surplus cash is deposited in highly rated listed debt securities and bank deposits. This is not considered to present a material credit risk.

Directors' Report (continued)

Directors and their interests

The Directors who served during the year, and to the date of the approval of this report and accounts unless stated otherwise, were as follows:

Executive Directors

P Hawthorne	Interim Chief Executive, appointed 1 April 2019

Non-Executive Directors

N F Markham	(Non-Executive Chairman) (appointed 2 April 2019)
T C Garnham	(Interim Non-Executive Chairman) (appointed 12 January 2019 resigned 1 April 2019, resumed Non-Executive Director role on 2 April 2019)
A L Reeves	Appointed 1 April 2018
N J Wilden	(Resigned 11 August 2019)
M Dunn	(Appointed 12 August 2019)

No Director has had, at any time, any interest in the shares of any Group company.

Charitable and political donations

No charitable or political donations were made during the year (2019: £nil).

Employee practice

The Group is a non-discriminatory employer operating an equal opportunities policy, committed to the employment and promotion of all staff based on merit, without regard to race, colour, sex, marital status or disability. Where appropriate, training is adjusted to cater for an individual's disability and the disabled share the same conditions of services as other staff in relation to career development and promotion.

Our range of employment policies and guidelines reflects legal and employment requirements in the UK and safeguards the interests of employees, potential employees, and other workers. We do not condone unfair treatment of any kind and offer equal opportunities in all aspects of employment and advancement regardless of race, nationality, gender, age, marital status, sexual orientation, and disability, religious or political beliefs.

The Group is committed to effective employee communication which is achieved by meetings and regular briefing sessions. By these means employees are systematically provided with information on matters concerning them, achieving a common awareness of factors affecting the Group's performance.

Health and safety

The Group's policies and procedures relating to health and safety at work recognise the requirements of current legislation and are kept under constant review to ensure a safe working environment for all associated staff. The Group has a commitment to improve continually its performance in the areas of health and safety. LCR has a Safety Committee that reports into the Executive Committee. All health and safety matters are reported at each Board meeting.

Directors' Report (continued)

Environment and sustainability

Through the LCR Sustainability Policy, the Group recognises the importance of its environmental responsibilities and has processes in place to manage its environmental effects and those of its contractors. It is committed to doing this diligently. The Group is implementing an environmental management system and sets targets to drive continual improvement. Targets currently include energy efficiency and waste recycling.

Environment and sustainability (continued)

LCR reports its energy consumption to the Environment Agency as part of the CRC Energy Efficiency Scheme. Environmental Permits are held for the Marley and Factory Farm closed landfill sites, which continue to be managed in accordance with the permit requirements. The Group has a commitment to continually improve its performance in matters of the environment.

Slavery

Modern slavery is a crime and violation of fundamental human rights. LCR has a zero-tolerance approach.

Security of Assets

LCR is committed to the safeguarding of both physical assets and information assets. All staff have been provided with guidance on security of physical assets through the LCR corporate manual and health and safety policies and procedures. LCR's IT policies and procedures provide guidance on the protection of information assets.

Disclosure of information to the auditor

Each of the Directors at the date of the approval of the financial statement confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

BY ORDER OF THE BOARD

P Hawthorne
Company Secretary
Registered Office: 20 Cranbourn Street, London, WC2H 7AA
2 July 2020

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the European Union and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report

To the members of London & Continental Railways Limited

Opinion

We have audited the financial statements of London & Continental Railways Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Parent Company Statement of Financial Position, Parent Company Statement of Changes in Equity, Parent Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Impact of the outbreak of Covid-19 on the financial statements

In forming our opinion on the parent company financial statements and the group financial statements, which is not modified, we draw your attention to the directors' view on the impact of the Covid-19 as disclosed on page 25, and the consideration in the going concern basis of preparation on page 43.

We have also considered the adequacy of the disclosure made in Note 9 to the financial statements concerning the material valuation uncertainty statement made by the group and parent company's valuer.

The full impact following the recent emergence of the Covid-19 is still unknown. It is therefore not currently possible to evaluate all the potential implications to the group and parent company's trade, customers, suppliers and the wider economy

Independent Auditor's report

To the members of London & Continental Railways Limited (continued)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent Auditor's report

To the members of London & Continental Railways Limited (continued)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's report

To the members of London & Continental Railways Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of the audit report

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

Richard Metcalfe (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date: 2 July 2020

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2020

	Note	**Year ended 31 March 2020 £'000**	**Year ended 31 March 2019 £'000**
Revenue	2	32,215	31,526
Cost of sales		(11,032)	(13,077)
Gross profit		**21,183**	**18,449**
Administrative expenses		(8,869)	(6,137)
Decrease in valuation of investment property and inventories	9	(23,131)	(22,791)
Release of provisions, obligations, and accruals	3, 15	-	40,334
Operating (loss)/profit		**(10,817)**	**29,855**
Net financial income / (expense)	6	130	1,034
Share of (loss)/gain of joint venture	10a	(190)	16,638
(Loss)/profit before tax		**(10,877)**	**47,527**
Taxation	7	(2,323)	(14,639)
(Loss)/profit for the year		**(13,200)**	**32,888**
Other comprehensive income		-	-
Total comprehensive (loss)/ income		**(13,200)**	**32,888**
(Loss)/profit attributable to Equity holder of the parent		**(13,200)**	**32,888**

All items of Group income are derived from continuing operations.

The Notes on pages 42 to 72 are an integral part of these consolidated financial statements

LONDON & CONTINENTAL RAILWAYS LIMITED
COMPANY REGISTRATION NO: 2966054

Consolidated Statement of Financial Position
As at 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Non-current assets			
Property, plant and equipment	8	2,571	24
Investment property	9	229,758	210,348
Investment in joint venture	10a	63,865	68,716
Receivable from related parties	12	17,997	17,995
		314,191	**297,083**
Current assets			
Inventories	11	9	9
Trade and other receivables	12	11,468	11,316
Cash and cash equivalents	13	78,604	105,431
		90,081	**116,756**
Total assets		**404,272**	**413,839**
Current liabilities			
Trade and other payables	14	(15,434)	(19,024)
Short term lease liability		(100)	-
Non-current liabilities			
Deferred tax liability	7	(16,829)	(15,582)
Long term lease liability	16	(23,876)	-
Other liabilities	16	(111)	(111)
Total liabilities		**(56,350)**	**(34,717)**
Net assets		**347,922**	**379,122**
Equity attributable to equity holder of the parent			
Share capital	18	958	958
Share premium	19	47,667	47,667
Capital redemption reserve	20	21,448	21,448
Retained earnings	21	218,655	249,855
Capital Contribution	21	59,194	59,194
Total equity		**347,922**	**379,122**

These financial statements were approved by the board of Directors on 2 July 2020 and were signed on its behalf by:

P Hawthorne
Interim Chief Executive
Company Registered Number: 2966054

The Notes on pages 42 to 72 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 March 2020

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Hedge Reserve £'000	Retained Earnings & capital contributions £'000	Total Equity £'000
Balance at 1 April 2018	**958**	**47,667**	**21,448**		**276,161**	**346,234**
Comprehensive income:						
Profit for the year	-	-	-	-	32,888	19,037
Other comprehensive income	-	-	-	-	-	-
Total comprehensive net income for the year	-	-	-	-	309,049	379,122
Dividend to parent					-	-
Balance at 31 March 2019	**958**	**47,667**	**21,448**	**-**	**309,049**	**379,122**
Balance at 1 April 2019	958	47,667	21,448	-	309,049	379,122
Loss for the year	-	-	-	-	(13,200)	(13,200)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive net income for the year	-	-	-	-	-	-
Dividend to parent	-	-	-	-	(18,000)	(18,000)
Balance at 31 March 2020	**958**	**47,667**	**21,448**	**-**	**277,849**	**347,922**

The Notes on pages 42 to 72 are an integral part of these consolidated financial statements.

LONDON & CONTINENTAL RAILWAYS LIMITED
COMPANY REGISTRATION NO: 2966054

Consolidated Statement of Cash Flows
For the year ended 31 March 2020

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Cash flows from operating activities		
(Loss)/Profit for the year	(13,200)	32,888
Adjustments for:		
Depreciation and amortisation	282	90
Change in value of investment property	23,131	22,791
Financial income	(848)	(1,034)
Share of loss/(profit) of equity-accounted investments	190	(16,638)
Release of accruals and provisions	-	(3,002)
Movement in onerous lease provision	-	(40,334)
Gain on sale of investment property/inventory	(7,697)	(7,418)
Gain on sale of assets held for resale	(1,573)	-
Taxation	2,323	14,639
Spreading of lease incentives	103	(835)
Decrease/(increase) in underlying trade and other receivables	1,392	(2,465)
(Decrease) in underlying trade and other payables	(1,446)	(2,992)
Interest expense	718	-
Tax paid	(3,169)	(1,462)
Net cash generated from / (used in) operating activities	**206**	**(5,772)**
Cash flows from investing activities		
Acquisition of investment property and property plant and equipment	(23,915)	(66,761)
Sale of investment property and inventory	14,134	6,159
Interest received	848	1,050
Net cash from investing activities	**(8,933)**	**(59,552)**
Cash flows from financing activities		
Lease payments	(100)	(100)
Dividend paid to parent	(18,000)	-
Net cash outflow from financing activities	**(18,100)**	**(100)**
Decrease in cash and cash equivalents	(26,827)	(65,424)
Cash and cash equivalents at 1 April	105,431	170,855
Cash and cash equivalents at 31 March	**78,604**	**105,431**

The Notes on pages 42 to 72 are an integral part of these consolidated financial statements.

LONDON & CONTINENTAL RAILWAYS LIMITED
COMPANY REGISTRATION NO: 2966054

Parent Company Statement of Financial Position
As at 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Non-current assets			
Property, plant and equipment	8	2,571	24
Investment property	9	135,633	115,531
Investments in subsidiaries	10b	30,084	30,084
Receivable from related parties	12	47,532	54,746
		215,820	**200,385**
Current assets			
Inventories	11	9	9
Trade and other receivables	12	10,117	9,054
Cash and cash equivalents	13	78,604	105,431
		88,730	**114,494**
Total assets		**304,550**	**314,879**
Current liabilities			
Trade and other payables	14	(10,569)	(15,440)
Short term lease liability		(100)	-
Non-current liabilities			
Payable to related parties	14	(13,849)	(13,797)
Deferred tax liability	7	(5,763)	(5,779)
Long term lease liability	16	(23,876)	-
Other liabilities	16	(111)	(111)
Total liabilities		**(54,268)**	**(35,127)**
Net Assets		**250,282**	**279,752**
Equity attributable to equity holder of the parent			
Share capital	18	958	958
Share premium	19	47,667	47,667
Capital redemption reserve	20	21,448	21,448
Retained earnings	21	121,015	150,485
Capital Contribution	21	59,194	59,194
Total equity		**250,282**	**279,752**

These financial statements were approved by the board of Directors on 2 July 2020 and were signed on its behalf by:

P Hawthorne
Interim Chief Executive

The Notes on pages 42 to 72 are an integral part of these financial statements.

Parent Company Statement of Changes in Equity
For the year ended 31 March 2020

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Retained Earnings & capital contributions £'000	Total Parent Equity £'000
Balance at 1 April 2018	958	47,667	21,448	200,426	270,499
Comprehensive income:					
Profit for the year	-	-	-	9,253	9,253
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	9,253	9,253
Balance at 31 March 2019	**958**	**47,667**	**21,448**	**209,679**	**279,752**
Balance at 31 March 2019	958	47,667	21,448	209,679	279,752
Comprehensive income:					
Loss for the year				(11,470)	(11,470)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year				(11,470)	(11,470)
Dividend to parent				(18,000)	(18,000)
Balance at 31 March 2020	**958**	**47,667**	**21,448**	**180,209**	**250,282**

The Notes on pages 42 to 72 are an integral part of these financial statements.

Parent Company Statement of Cash Flows
For the year ended 31 March 2020

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Cash flows from operating activities		
(Loss) / Profit for the year	(11,470)	9,253
Adjustments for:		
Depreciation	282	90
Change in value of investment property	22,051	25,952
Financial income	(848)	(1,034)
Interest expense	718	-
Release of accruals and provisions	-	(3,002)
Movement in onerous lease provision	-	(40,334)
Spreading of lease incentives	103	(788)
Gain on disposal of investment property/inventory	(13,930)	(8,677)
Taxation	71	14,173
Decrease / (increase) in trade and other receivables	7,695	(2,498)
(Decrease) / increase in trade and other payables	(1,686)	2,175
Tax paid	(3,169)	(1,462)
Net cash generated used in operating activities	**(183)**	**(6,152)**
Cash flows from investing activities		
Acquisition of investment property and property, plant and equipment	(23,525)	(66,381)
Sale of investment property and inventory	14,133	6,159
Interest received	848	1,050
Net cash outflow from investing activities	**(8,544)**	**(59,172)**
Cash flows from financing activities		
Lease payments	(100)	(100)
Dividend to DfT	(18,000)	-
Net cash outflow from financing activities	**(18,100)**	**(100)**
Decrease in cash and cash equivalents	(26,827)	(65,424)
Cash and cash equivalents at 1 April	105,431	170,855
Cash and cash equivalents at 31 March	**78,604**	**105,431**

The Notes on pages 42 to 72 are an integral part of these financial statements.

Notes to the Financial Statements

Accounting Policies

1. Reporting entity and basis of preparation

London & Continental Railways Limited (the "Company") is a private company incorporated, registered, and domiciled in the United Kingdom. The registered number is 2966054 and the registered address is included on Page 1.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"), and equity account for the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The parent company made a loss after tax of £13.2m in the year.

As permitted under IFRS 1, upon its transition to IFRS the Group elected to use the previous UK Generally Accepted Accounting Practice ("UKGAAP") valuation as the deemed cost for all property, plant and equipment.

Impact of standards and interpretations in issue

The accounting policies used in these financial statements are consistent with those applied in the last annual financial statements, as amended where relevant to reflect the adoption of new standards, amendments and interpretations which became effective in the year, the impact of which is outlined below.

Changes in accounting policy

The Group adopted IFRS 16 Leases on 1 April 2019.

IFRS 16 requires lessees to recognise a lease liability, representing the present value of the obligation to make lease payments, and a related right of use ("ROU") asset. The lease liability is calculated based on expected future lease payments, discounted using the relevant incremental borrowing rate. The ROU asset is recognised at cost less accumulated depreciation and impairment losses, with depreciation charged on a straight-line basis over the life of the lease. In determining the value of the ROU asset and lease liabilities, the Group considers whether any leases contain lease extensions or termination options that the Group is reasonably certain to exercise.

The Group has applied the modified retrospective approach to IFRS 16 and therefore comparative information has not been restated. On adoption of IFRS 16, the Group recognised an additional £23.1m ROU asset and £23.9m lease liability, with nil impact on retained earnings at 1 April 2019.

Notes to the Financial Statements (continued)

Accounting Policies (continued)

Amendments to IFRS
A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the Group. The application of these new standards, amendments and interpretations are not expected to have a significant impact on the Group's income statement or balance sheet.

1.1 *Basis of measurement*

The financial statements are prepared on the historical cost basis except that investment property is stated at fair value.

1.2 *Going concern*

Covid-19 and going concern review
This going concern review begins with a summary of the risks that Covid-19 poses to the Company together with actions we have already taken and continue to take to ensure that not only does the business weather the storm, but will be also well placed to emerge from the crisis in a position of financial strength.
The impact of the virus looks likely to be significant in terms of extent and timing. This represents a significant risk to development and letting activity together with the operations of the Company as a whole.
Covid-19 has the potential to impact the company in the following areas:

- Company staff operating from home or otherwise unable to work or absent from work;
- Contractors unable to continue with construction work on sites or forced to reduce construction work on sites due to a combination of the effective lockdown or as staff are unable to work or are absent from work;
- Managing agents unable to progress activities in respect of lettings, repairs and maintenance due to a combination of the effective lockdown or as staff are unable to work or are absent from work;
- Income reduction and potential bad debts as customers may struggle to maintain rental payments resulting from a loss of income due to a combination of the effective lockdown or as individuals are without work, unable to work or are absent from work;
- Disruption to the supply chain as raw materials and construction products are not produced or imported due to workers unable to work or absent from work;
- General disruption to employees, contractors, managing agents and the supply chain due to restrictions on the movement of goods and people; and
- Impact of the virus on the economy and market sentiment.

The absence of Company staff has been mitigated by remote working from home. We have the technology to facilitate remote working throughout the business in order to keep our operations on track as much as practically possible during the Covid-19 lockdown. The Company does not intend to furlough staff or make use of any of the Government support. LCR's intention is to keep all employees actively working as far as possible and to maintain contractual terms and conditions throughout. A greater issue has been in relation to construction and letting activity where the effective lockdown has slowed activity in the short term. Importantly, the Company's contractual obligations only provide for payment to contractors in respect of work undertaken and independently certified. The absence of construction activity thereby negates development expenditure thus mitigating cash outflows.

Notes to the Financial Statements (continued)

Accounting Policies (continued)

*1.2 **Going concern (continued)***

In relation to income and bad debts, the Company carefully vets prospective tenants and typically obtains insurance for at least the first year of new lettings. This, together with the geographic spread of multiple sites will help mitigate against the inevitable bad debts. Preserving the employment of staff, rather than furloughing, also enables LCR to work with our managing agents as we proactively assist and support those tenants encountering difficulty in a responsible and reasonable manner during the crisis. In terms of supply chain disruption, significant efforts and contingencies had already been put in place in respect of Brexit through securing additional inventory of supplies, including steel.

Covid-19 Stress Tests

In light of the above, the Company has performed a prudent financial stress tests geared towards ensuring that it has sufficient cash resources to weather the pandemic and subsequently emerge in a position of strength to continue to implement the focused build to rent strategy. The stress test incorporated the following sensitivities:

- A starting point of £78.6m of cash balances with no associated borrowings;
- Absence of rental income on properties owned by LCR for a period of 6 -12 months with no subsequent recovery thereof, note one property is fully occupied with public sector tenants and that is assumed to operate as normal;
- Inclusion of only contracted revenue and does not include any additional revenue from any new potential sources;
- Continuation of employment costs as currently contracted without any reduction for cost saving initiatives, mitigating action or contribution from any Government backed furlough scheme;
- No new financing is assumed in the assessment period;
- No asset sales; and
- Maintenance of the Company's overhead base per annum without reduction from cost saving initiatives or mitigating action.

Conclusion of Covid-19 Stress Tests

The conclusion of our stress test is that the business has more than adequate cash resources to sustain an extended cessation of construction and disruption to letting activity lasting at least 12 months with estimated funding resources of more than £20m remaining and being maintained even after this time.

Therefore, the Directors believe the company is well placed to manage its business risks successfully and the Directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months from the date of the approval of the financial statements for the year ended 31 March 2020. The Board is therefore of the opinion that the going concern basis adopted in the preparation of the financial statements for the year ended 31 March 2020 is appropriate.

Notes to the Financial Statements (continued)

Accounting Policies (continued)

1.3 *Basis of consolidation*

The Company adopts IFRS 10, 11, and 12.

Subsidiaries

The Group's accounting policy for determining whether it has control over and consequently whether it consolidates its investees follows IFRS 10. IFRS 10 introduces a control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

Joint Arrangements – Joint Ventures

Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has joint control and rights to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

A Joint Venture is a joint arrangement whereby the Group has joint control and has rights to its share of the net assets of the arrangement. Joint ventures are accounted for under the equity method. The balance sheet incorporates the Group share of the net assets of the joint venture. The consolidated statement of comprehensive income incorporates the share of the joint venture's profit after tax.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50 % of the voting power of another entity. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases.

1.4 *Property, plant and equipment*

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Plant and equipment 3 years
- Fixtures and fittings 5 years
- Right of use asset Lease term

Notes to the Financial Statements (continued)

Accounting Policies (continued)

1.4 ***Property, plant and equipment (continued)***

Property under construction

Investment property and property assets under construction are recorded at cost and subsequently revalued at the reporting date to fair value as determined by professionally qualified external valuers on the basis of market value.

No depreciation is charged on an asset under construction.

1.5 ***Investment property***

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value.

The investment property portfolio is externally valued on an open market basis each year by independent valuers in accordance with the regulations set by the Royal Institution of Chartered Surveyors (RICS). The valuations are prepared by considering the value in existing use together with the value to be derived from planned developments, discounted to reflect inherent risks, and considering where appropriate net rental yields and development and other costs.

Occasionally, investment property may be valued internally by management. These valuations are undertaken through management's knowledge of the property and compared to movements in the valuation of similar assets.

Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income. Rental income from investment property is accounted for as described in the revenue accounting policy (note 1.14).

1.6. ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

1.7. ***Financial instruments***

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity financial assets and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset expire or the Group transfers substantially all risks and rewards of ownership.

Notes to the Financial Statements (continued)

Accounting Policies (continued)

1.7. ***Financial instruments (continued)***

Financial assets

The Group's financial assets consist of loans, receivables and cash held by third parties.

Financial assets recognised in the consolidated statement of financial position as trade and other receivables are classified as loans and receivables. They are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Cash and cash equivalents are also classified as receivables. Cash and cash equivalents include cash in hand, deposits held at call with banks and other short- term highly liquid investments with original maturities of three months or less.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired, unless the asset
is carried at fair value through profit or loss as fair value already reflects counterparty non-performance risk. If there is objective evidence the asset is tested for impairment.

Financial liabilities

Liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss or other liabilities, as appropriate. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Initial recognition is at fair value less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method. Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest-bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted as its impact would be insignificant.

1.8. ***Trade and other receivables***

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Cash collected on the Company's behalf by property managing agents has been accounted for within trade and other receivables as cash held by third parties.

1.9. ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits.

1.10. ***Trade and other payables***

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Notes to the Financial Statements (continued)

Accounting Policies (continued)

1.11. ***Impairment excluding inventories, investment properties and deferred tax assets***

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

1.12. ***Impairment excluding inventories, investment properties and deferred tax assets***

Financial assets (including receivables) (continued)

Provision for impairment is calculated as a percentage of debtors outstanding over a period of 60 days which are deemed to be irrecoverable. The company undertook the review of bad debts as prescribed by IFRS 9, where a provision for impairment is recognised using matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables was assessed. This probability was then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. The method adopted by the company provided results not materially different to results achieved by applying IFRS 9 guidance and therefore the company's policy remained appropriate. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income of the parent company, when there is objective evidence that the asset is impaired.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

1.12. ***Employee benefits***

Defined benefit pension

All the Group's employees are eligible to participate in the retirement and death benefits scheme which are provided for by payments to a section of the Railways Pension Scheme (RPS), a shared cost defined benefit scheme. Contributions to the Scheme are paid in accordance with the Scheme's rules. Contributions to the Scheme are expensed as incurred (as would be the case with a defined contribution scheme) because the assets of the shared-cost scheme cannot be separated between employers.

Notes to the Financial Statements (continued)

Accounting Policies (continued)

*1.12. **Employee benefits***

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*1.13. **Provisions***

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation because of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

*1.14. **Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Property sales

Revenue is recognised net of sales taxes and upon transfer of control to the buyer. Revenue is not recognised to the extent there are significant uncertainties regarding recovery of the consideration due or associated costs.

Rental income

Rental income from operating leases and investment properties is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

*1.15. **Expenses***

Financing income and expenses
Financing income comprises interest receivable on funds invested and dividend income. Financing expenses comprise interest payable. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Notes to the Financial Statements (continued)

Accounting Policies (continued)

1.15. Expenses (continued)

Interest income and interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the entity's right to receive payments is established.

Administrative expenses and Cost of sales

Administrative expenses and cost of sales are accounted for on an accrual's basis.

1.16. Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.17. Government Grants

The Group received government grants related to the refurbishment of several buildings at RTC Derby. Government grants are recognised when it is reasonably certain that the conditions related to receiving the grants have been met or will be met and that the grants have been or will be received. Grants contributing to the cost of an asset are deducted from the asset's cost and reflected in the depreciation throughout the useful life of the asset.

1.18. Critical Accounting Policies

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies, which are described in note 28, and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis.

Notes to the Financial Statements (continued)
Accounting Policies (continued)

*1.18. **Critical Accounting Policies (continued)***

of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The key source of estimation and uncertainty is property valuations.

The fair value of the investment property is typically determined by an independent real estate valuation expert primarily using comparable recent market transactions on arm's length terms. Notes 9 and 28 provide further details on the judgements and assumptions made.

2. Revenue

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Property sales	9,271	7,418
Investment property rentals and sundry income	22,944	24,108
Total revenues	**32,215**	**31,526**

3. Expenses and auditor's remuneration

Included in operating results are the following:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Onerous lease provision P&L movement (Note 15)	-	40,334
Depreciation and amortisation	(100)	(90)
Right of use asset depreciation	(183)	-
Pension costs (Note 17)	(703)	(627)
Operating leases	(556)	(1,139)
Auditor's remuneration:		
Audit of these financial statements	42	39
Audit of financial statements of subsidiaries of the Company	9	9
	51	48

Notes to the Financial Statements (continued)

4. *Staff numbers and costs*

The average number of persons employed by the Group including Executive Directors (but excluding Non-Executive Directors) during the year was as follows:

	Year ended 31 March 2020	Year ended 31 March 2019
Property management and corporate	**48**	**44**

The aggregate payroll costs of these persons were as follows (Group and Company):

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Wages and salaries	4,028	3,030
Social security costs	485	436
Expenses related to defined benefit and contribution plans	703	627
Other staff costs	830	613
Total	**6,046**	**4,706**

5. *Directors' remuneration*

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Directors' emoluments	366,803	839,395
Company contributions to defined benefit pension plans	21,993	47,741
Amounts paid to third party in respect of Director's services	35,000	35,000
Total	**423,796**	**922,136**

The emoluments and pension contributions of the highest paid Director are £232k. As at 31 March 2020 the remuneration of one Executive Director and three Non-Executive Directors is included in Directors' emoluments, in the prior year there were two Executive Directors and three Non-Executive Directors, and one executive Director received an additional payment following fulfilment of a contractual provision.

	Number of Directors 31 March 2020	31 March 2019
Retirement benefits are accrued to the following number of Directors under:		
Defined benefit schemes	1	2

As at 31 March the sum of accrued annual pension for the one Director is £22k (2019: £30k) and their accrued lump sum is £20k (2019: £28k).

Notes to the Financial Statements (continued)

6. *Net Finance Income / (Expense)*

Recognised in the statement of comprehensive income

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Interest income on unimpaired financial assets, comprising cash and cash equivalents	848	1,034
Less:		
Interest on lease liability	(718)	-
Total finance / income	**130**	**1,034**

7. *Taxation*

Recognised in the statement of comprehensive income

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Current tax		
Current year charge	1,077	4,170
Deferred tax	1,246	10,469
Total tax charge for the year	**2,323**	**14,639**

Reconciliation of effective tax rate

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
(Loss)/Profit before taxation	(10,875)	47,527
Tax using the UK corporation tax rate of 19% (2018: 19%)	(2,066)	9,030
Effects of:		
Taxable timing differences	3,069	10,414
Non-taxable expense / (income)	58	109
Share of gains of associates and joint venture not subject to tax in LCR	(263)	(2,922)
Prior year adjustment	(307)	(760)
Change in tax rate	1,832	(1,232)
Total tax charge for the year	**2,323**	**14,639**

Notes to the Financial Statements (continued)

7. Taxation - continued

Deferred tax assets and liabilities – Group and Company

The deferred tax liabilities / (assets) recognised at the current reporting date, and the movement thereon during the year, are as follows:

Group	**Investment property £'000**	**Tax losses £'000**	**Total £'000**
At 1 April 2019	18,381	(2,799)	15,582
Charge / (credit) to income	12,022	(10,776)	1,246
At 31 March 2020	**30,403**	**(13,575)**	**16,828**

Company	**Investment property £'000**	**Tax losses £'000**	**Total £'000**
At 1 April 2019	8,578	(2,799)	5,779
Charge / (credit) to income	10,759	(10,776)	(17)
At 31 March 2020	**19,337**	**(13,575)**	**5,762**

The company has an unrecognised deferred tax asset of approximately £121m (2019: £118m), arising from significant accumulated losses which have the potential to offset future profits of the Group, which has not been recognised due to uncertainty over the timing of future loss utilisation.

The deferred tax calculations reflect a tax rate of 19% from 1 April 2020 which was substantively enacted on 17 March 2020. The deferred tax at 31 March 2019 reflected Finance Act 2016 provisions for a rate of 17% to apply from this date.

If the lower rate of 17% had been applied the unrecognised deferred tax asset would have been approximately £13m lower at 31 March 2020.

Notes to the Financial Statements (continued)

8. Property, plant and equipment – Group and Company

	Plant and Equipment £'000
Cost – plant and equipment	
Balance at 31 March 2019	558
Additions	1,003
Balance as at 31 March 2020	**1,561**
Depreciation – plant and equipment	
At 31 March 2019	(536)
Depreciation charge for the year	(100)
Balance as at 31 March 2020	**(636)**
Cost - property	
Balance as at 31 March 2019	-
Additions - right of use asset	1,828
Balance as at 31 March 2020	**1,828**
Depreciation – property	
At 31 March 2019	-
Depreciation - right of use asset	(182)
Balance as at 31 March 2020	**(182)**
Net book value at 31 March 2020	**2,571**
Net book value as at 31 March 2019	**24**

Property, plant and equipment has not been subject to impairment or reversal of impairment. Property relates to the right-of-use asset ("ROU") recognised for the office lease entered into by the group. The ROU Asset is measured at the present value of the lease payments and is depreciated over the life of the lease.

9. Investment property – Group

	Investment Property £'000
Balance at 31 March 2019	210,348
Additions	22,911
Additions – Right of use asset	21 ,430
Disposal	(1,800)
Amortisation	-
Revaluation loss	(23,131)
Balance at 31 March 2020	**229,758**

Notes to the Financial Statements (continued)

Investment property – Group (continued)

Most of the Group's investment property is valued at each reporting date by the Group's independent valuers Avison Young in accordance with 'The RICS Valuation- Professional Standards (2020)'. Valuations are undertaken on the basis of the market value of each site, considering where appropriate the current use and planning conditions.

The recognition of the right of use asset relates to two sites where LCR is the lessee. Under IFRS 16 the Right-of-use asset has been recognised at the present value of the future lease payments.

For the 31 March 2020 valuation, the rapid spread of Covid-19 has disrupted activity in real estate markets creating heightened valuation uncertainty for the Group's valuers. As a result, the valuation report includes a clause which highlights a 'material valuation uncertainty' which is as follows:

"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of this property under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

The marketability and hence saleability of certain of the investments may be impacted by the HS2 rail link proposals, the valuation opinion is based on no adverse impact.

IFRS 13 requires enhanced disclosures about assets and liabilities that are measured and reported at fair value and establishes a hierarchical disclosure framework which prioritises and ranks the level of market price observability used in measuring investments at fair value. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Notes to the Financial Statements (continued)

Investment property – Group (continued)

The Group has concluded that the investment properties should be categorised as Level 3 fair value based on the inputs to the valuation technique used.

Transfers between levels are deemed to have occurred on the date of the event or the change in circumstance that caused the transfer. There was no movement or transfer between level 1, level 2, level 3 investments during the year ended 31 March 2020 (2019: none).

The Group received government grants related to the improvement works at RTC Derby. Government grants are recognised when it is reasonably certain that the conditions related to receiving the grants have been met or will be met and that the grants have been or will be received. Grants contributing to the cost of an asset re deducted from the asset's cost and reflected in the depreciation charge throughout the useful life of the asset.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Redbook valuation in accordance with the 'RICS Valuation – Professional Standards (2020)	Void periods (0 to 24 months) Occupancy rate (0 to 100%) Rent-free periods (0 to 24 months) Initial yield (4 to 13%) Level of affordable housing (0 to 50%)	The estimated fair value would increase (decrease) if: Void periods were shorter (longer); The occupancy rate was higher (lower); Rent-free periods were shorter (longer); or The initial yield was lower (higher). The level of affordable housing was lower (higher).

Investment property - Company

	Investment Property £'000
Balance at 31 March 2019	**115,531**
Additions	22,523
Additions – Right of use asset	21,430
Disposals	(1,800)
Revaluation	(22,051)
Balance at 31 March 2020	**135,633**

Notes to the Financial Statements (continued)

Investment property – Group (continued)

Investment property is valued at each reporting date by the Group's independent valuers, GVA, in accordance with 'The RICS Valuation – Professional Standards (2020)'.

Valuations are undertaken on the basis of the market value of each site, considering where appropriate the current use and planning conditions.

Company investment properties are valued using the same techniques as disclosed for Group in note 9. They are all level 3 assets under IFRS 13.

The Company receives government grants related to the improvement works at RTC Derby. Government grants are recognised when it is reasonably certain that the conditions related to receiving the grants have

been met or will be met and that the grants have been or will be received. Grants contributing to the cost of an asset are deducted from the asset's cost and reflected in the depreciation throughout the useful life of the asset.

10. Investments in subsidiaries, associates and jointly controlled entities

The Group and Company have the following main investments in subsidiaries, associates and jointly controlled entities, which are directly and indirectly held:

	Class of shares held	**Ownership**	
		31 March 2020	**31 March 2019**
Group:			
Stratford City Business District Limited[1]	Ordinary	50%	50%
LCR St Pancras Chambers Ltd[2]	Ordinary	100%	100%
Mayfield Partnership Ltd[2]	Ordinary	33.3%	33.3%
Whittles Properties Brunel Ltd[2]	Ordinary	100%	100%
Whittles Properties Croydon Ltd[2]	Ordinary	100%	100%
Whittles Properties Manchester Ltd[2]	Ordinary	100%	100%
RTC Regeneration 2015 Ltd[2]	Ordinary	100%	100%
Mayfield Partnership (General Partner) Ltd[3]	Ordinary	33.3%	33.3%
Mayfield Partnership Limited Partnership[3]	Partnership	33.3%	33.3%

The registered offices are as follows:
[1] *20 Triton Street, Regent's Place, London NW1 3BF*
[2] *20 Cranbourn Street, London WC2H 7AA*
[3] *3 Melville Street, Edinburgh, Scotland EH3 7PE*

Company:

The Company's interest in the Stratford City Business District Joint Venture is held via a 100% interest in subsidiary companies LCR Stratford GP Limited and LCR Stratford LP Limited, which in turn hold 100% of LCR

Notes to the Financial Statements (continued)

10. Investments in subsidiaries, associates and jointly controlled entities (continued)

Stratford Limited Partnership, which has a 50% holding in Stratford City Business District Limited and IQL Investments LLP.

All investment entities are incorporated or registered in England & Wales, apart from Mayfield Partnership (General Partnership) Ltd which is incorporated in Scotland and Mayfield Partnership Limited Partnership which is registered in Scotland.

The Company's cost of investments is set out in note 10(b).

The Mayfield Partnership Limited Partnership was formed in December 2016 between LCR, Manchester City Council and Transport for Great Manchester. LCR and its partners have subsequently entered into a further partnership with U+I, as the private sector development partner, to redevelop the Mayfield area.

10(a) Carrying value of investments in joint ventures – Group

Cost:	**JV: Stratford City £'000**
At 31 March 2019	**68,716**
Share of operating loss	(190)
(Deferral) of profit on land sold	(4,661)
At 31 March 2020	**63,865**

Joint Venture: Stratford City Business District Limited (SCBDL)

SCBDL is a jointly controlled entity because the Group owns 50% of the company, and it shares equally in the strategy and decision-making of SCBDL. SCBDL's principal activity is the redevelopment of lands at Stratford, East London, as a joint venture arrangement between LCR and Lend Lease Europe Limited.

Since SCBDL's accounting reference date is 30 June 2019, LCR apportioned the results accordingly and align these with the accounting period to 31 March 2019. The LCR Group's share of total recognised profit or loss, and the aggregate assets and liabilities of SCBDL, are set out below:

Share of SCBDL results:

	Year ended 31 March 2020 £'000	**Year ended 31 March 2019 £'000**
Share of operating (loss)/profit after tax and non-operating costs	**(190)**	**16,638**

Notes to the Financial Statements (continued)

10(a) Carrying value of investments in joint ventures – Group (cOninued)

Joint Venture: Stratford City Business District Limited (SCBDL) (continued)

Summary financial information on JV SCBDL – 100 per cent:

	31 March 2020	31 March 2019
	£'000	£'000
Revenue	48,392	227,689
(Loss)/profit from continuing operations[1]	(380)	33,277
Total comprehensive (Loss) / income	(380)	33,277

[1]- Depreciation and amortisation of £1,708,841
- Interest expense (net of interest income) of £2,522,434

	31 March 2020	31 March 2019
	£'000	£'000
Current Assets	198,569	220,793
Non-current assets	7,095	2,949
Current liabilities	(24,721)	(20,722)
Non-current liabilities	(37,193)	(58,709)
Net assets (including new share issues)	143,750	144,311

Included in LCR's statement of financial position at 31 March 2019 as an 'asset held for sale' at £1 is a reversionary interest in land whose title transferred to SCBDL in March 2013, but which remains subject to a restrictive charge in favour of LCR.

Sale of land parcels are recognised by LCR as and when drawn-down and paid by SCBDL for use in the JV (see also note 27). SCBDL has until 2024 to exercise the draw-down and payment of part or all of the land.

From a Group perspective 50% of all such profit is deferred as remaining within the Group and is recognised by the Group upon the onward sale of plots by SCBDL. The table below outlines the Group's profit recognition on sale of land parcels.

Year	Transaction	Profit from Sale of Land	Recognised Profit	Release of Deferred profit	Deferred Profit Movement
		£'000	£'000	£'000	£'000
	Results to 16/17	7,966	3,983	3,561	422
17/18	Release of deferred profit			422	(422)
17/18	Sale of Land to SCBDL	3,146	1,573		1,573
18/19	Release of deferred profit			1,573	(1,573)
18/19	Sale of Land to SCBDL	2,519	1,259		(1,259)
19/20	Sale of Land to SCBDL	12,468	6,234		(6,234)
Total		**26,099**	**13,049**	**5,556**	**7,493**

Notes to the Financial Statements (continued)

10(a) Carrying value of investments in joint ventures – Group (continued)

Joint Venture: Stratford City Business District Limited (SCBDL) (continued)

Group: sale of assets held for sale:	**Year ended 31 March 2020 £'000**	**Year ended 31 March 2019 £'000**
Release of deferred profit on land sold to SCBDL JV	**-**	**-**
Profit on disposal of property assets held for sale	**-**	**-**

Joint Venture: Mayfield Development Partnership L.P.

The Mayfield Development Partnership is a 50:50 joint venture arrangement between the public sector (LCR, Manchester City Council and Transport for Greater Manchester) and U+I as development partner. The principal activity is the redevelopment of lands at Mayfield, Manchester, adjacent to Piccadilly Gate Railway Station.

LCR land, with a value of £14m, was drawn down in May 2017. LCR holds a non-interest-bearing Loan note of £14m (2018: £14m) in return for the land drawn down in May, with this being recoverable from the Mayfield Development Partnership.

In addition, LCR has a non-current receivable for project costs incurred of £4m (2018: £4m) (Group and Company) which is recoverable from the Mayfield Partnership Limited Partnership.

The public sector partners' share of the Mayfield Development Partnership's operating loss after tax and non-operating costs was £13,168 (2018: loss £2,612).

10(b) Cost of investments – Company's subsidiaries (100% ownership)

	RTC Regeneration 2015 £'000	**Whittles Brunel £'000**	**Whittles Croydon £'000**	**Whittles Manchester £'000**	**Total Investments £'000**
Balance as at 31 March 2019 and at 31 March 2020	**17,659**	**2,353**	**750**	**9,322**	**30,084**

The principal activity of the subsidiaries was that of investment properties.

11. Inventories – Group and Company

	31 March 2020 £'000	**31 March 2019 £'000**
Inventories	9	9

Notes to the Financial Statements (continued)

12. Financial Instruments by Category – Trade Receivables

	Trade and other receivables 2020 £'000	Trade and other receivables 2019 £'000
Group:		
Assets		
Assets held under amortised cost	**12,099**	**11,316**

	31 March 2020	31 March 2019
Group:	**£'000**	**£'000**
Trade receivables	4,584	5,473
Cash held by third parties	4,273	3,455
Other trade receivables, prepayments, and accrued income	2,611	2,388
Receivables due from related parties	17,997	17,995
	30,096	29,311
Less non-current proportion of receivables	(17,997)	(17,995)
Total	**11,468**	**11,316**

Group – non-current	31 March 2020 £'000	31 March 2019 £'000
Receivable from related parties	**17,997**	**17,995**

	Trade and other receivables 2020 £'000	Trade and other receivables 2019 £'000
Company:		
Assets		
Assets held under amortised cost	**10,748**	**9,054**

Notes to the Financial Statements (continued)

12. Financial Instruments by Category – Trade Receivables (continued)

Company:	31 March 2020 £'000	31 March 2019 £'000
Trade receivables	4,067	3,816
Cash held by third parties	4,273	3,455
Receivables due from related parties	47,532	54,746
Other trade receivables, prepayments, and accrued income	1,777	1,783
	58,280	63,800
Less: non-current proportion of receivables	(47,532)	(54,746)
Current receivables	**10,117**	**9,054**

The Company's non-current receivables comprise the following loans and receivables with related parties:

Company – non-current	31 March 2020 £'000	31 March 2019 £'000
KXC (LCR) LP Investment Limited	134	134
LCR Stratford Limited Partnership	15,131	15,130
Mayfield Partnership Limited Partnership	3,997	3,996
Mayfield Development Partnership Limited Partnership	14,000	14,000
Whittles property companies	14,270	21,486
Total	**47,532**	**54,746**

Non-current receivables include project costs of £3,997k (2019: £3,996k) (Group and Company) which are recoverable from the Mayfield Partnership Limited Partnership.

13. Financial Instruments by Category – Cash

Group and Company:	31 March 2020 £'000	31 March 2019 £'000
Cash and cash equivalents	**78,604**	**105,431**

Notes to the Financial Statements (continued)

14. Financial Instruments by Category – Trade Payables

	Trade and other payables 2020 £'000	Trade and other payables 2019 £'000
Group - Current		
Trade payables	411	2,291
Other trade payables	3,284	2,596
Corporation tax payable	672	2,765
Non trade payables, accrued expenses and deferred income	11,067	11,372
Total	**15,434**	**19,024**

	31 March 2020 £'000	31 March 2019 £'000
Company - Current:		
Trade payables	272	1,784
Other trade payables	3,284	2,595
Corporation tax (receivable)/payable	(316)	2,765
Non-trade payables accrued expenses and deferred income	7,329	8,296
Total	**10,569**	**15,440**

	31 March 2020 £'000	31 March 2019 £'000
Company – Non-current:		
Payables due to related parties	**13,849**	**13,797**

Notes to the Financial Statements (continued)

14. Financial Instruments by Category – Trade Payables (continued)

Fair values of financial instruments – Group and Company

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date, if the effect of discounting is considered to be material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date, if the effect of discounting is considered to be material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated at its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The fair values of the Group's financial assets and financial liabilities are not materially different to their carrying values.

Credit Risk

Financial risk management and credit quality

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and cash investments.

Trade receivables at 31 March 2020 do not pose a material credit risk to the Group.

Cash in hand at 31 March 2020 is £78.6m. Such balances are invested in highly-rated listed debt securities and bank deposits. There is not considered to be a material credit risk.

Liquidity Risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk is low as the Group has an excess of cash reserves over obligations. The adequacy of the Group's funding reserve is reviewed by the Board on a regular basis. Trade and other payables are all less than one year.

Notes to the Financial Statements (continued)

14. Financial Instruments by Category – Trade Payables (continued)

Market Risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Fair values of financial instruments – Group and Company (continued)

The Group is exposed to market risk only in respect of interest rate risk on its cash reserves, which vary with market rates. No interest rate hedging is considered appropriate. The Group has no interest-bearing borrowings.

Capital management

The capital structure of the group consists entirely of shareholder's equity, with no external borrowings.

It is not anticipated that the Group will require external borrowings for the foreseeable future, due to its cash reserves. The Group does not have a credit rating and is wholly owned by the UK Government.

15. Provision for liabilities and charges – Group and Company

	Onerous Lease £'000
Balance as at 31 March 2019	-
Balance as at 31 March 2020	-

During the prior year the Company acquired the head lease of the building that was transferred to LCR in 2013. The Company inherited the onerous lease provision as part of the asset transfer. At the point of acquisition in the prior year, the onerous lease provision of £40.3m was derecognised on the basis that the Company ceased to be a party to the contract in which unavoidable costs exceeded the benefits from the contract

Notes to the Financial Statements (continued)

16. Other non-current liabilities – Group and Company

Group – Non- current:	31 March 2020 £'000	31 March 2019 £'000
Deferred income	111	111
Lease liabilities under IFRS16	23,876	-

Deferred income represents notional interest on project costs which are recoverable from the Mayfield Partnership Limited Partnership when the Partnership earns a profit.

Lease Liabilities under IFRS16	£'000
Operating lease commitments disclosed as at 31 March 2019	52,500
Effect of discounting	(30,969)
Opening Lease liability as at 1 April 2019	21,531
Addition of lease liability	2,176
Effect of discounting	(349)
Interest charge on lease liabilities	718
Lease payments	(100)
Finance lease liabilities recognised as at 31 March 2020	23,976
Short term liability	100
Long term liability	23,876

Maturity analysis of undiscounted cashflows associated with long term lease liabilities:	31 March 2020 £'000
Due for repayment within 1 year	100
Between 1 and 2 years	1,000
Between 2 and 5 years	4,200
In 5 years or more	49,300
Total	**54,600**

17. Employee benefits

The Group's pension arrangements are provided by a section of the Railways Pension Scheme, which all employees are eligible to join.

Railways Pension Scheme

The Group is a member of the British Rail Shared Cost section of the Railways Pension Scheme (RPS), having transferred-in the assets and accrued rights relating to LCR staff and those of its former subsidiary Channel Tunnel Rail Link Limited ('CTRLL') in 2011.

Notes to the Financial Statements (continued)

17. Employee benefits (continued)

The Group has no reliable and consistent method to identify its share of the assets and liabilities of the defined benefit pension scheme in which it participates, and accordingly its defined benefit pension costs are accounted for on a defined contribution payment basis.

The Group's RPS contributions are charged to the statement of comprehensive income as incurred and for the year were £426k (2019: £351k). All contributions were fully paid up at 31 March 2019. The Group pays a supplementary RPS contribution of £276k (2019: £276k) as its share of the deficit reduction plan for the scheme.

18. Share capital – Group and Company

	31 March 2020 £	31 March 2019 £
3,831,983 Ordinary shares of 25 pence each	**957,996**	**957,996**

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company.

	31 March 2020 £'000	31 March 2019 £'000
Dividends declared to Ordinary Shareholder	**18,000**	**-**

During the year, the Board declared and approved a dividend payment of £18m to DfT (2019: nil).

19. Share premium – Group and Company

	31 March 2020 £'000	31 March 2019 £'000
At beginning and end of year	**47,667**	**47,667**

Share premium is the amount by which the fair value of the consideration received for ordinary shares exceeds the nominal value of shares issued, net of expenses.

20. Capital redemption reserve – Group and Company

	31 March 2020 £'000	31 March 2019 £'000
At beginning of and end of year	**21,448**	**21,448**

Notes to the Financial Statements (continued)

20. Capital redemption reserve – Group and Company (continued)

The capital redemption reserve is a statutory, non-distributable reserve into which amounts were transferred following the purchase of the company's own shares.

21. Retained earnings and capital contribution

Group:	**31 March 2020 £'000**	**31 March 2019 £'000**
At 1 April	309,049	276,161
(Loss)/Profit for year	(13,200)	32,888
Dividend to parent	(18,000)	-
Total	**277,849**	**309,049**

21. Retained earnings and capital contribution (continued)

Capital introduced by parent

BRB (Residuary) Limited was abolished under the Public Bodies Act 2011 on 30 September 2013. Net assets with a fair value of £59.2m were transferred to LCR. This transaction has been treated as a capital contribution of £59.2m within the financial statements.

22. Leases – Group & Company

(a) Operating lease commitments – Group as lessee

The future aggregate minimum lease payments under this non-cancellable operating lease are as follows:

	31 March 2020 £'000	**31 March 2019 £'000**
Due for repayment within 1 year	-	100
Between 1 and 2 years	-	100
Between 2 and 5 years	-	3,300
In 5 years or more	-	49,000
Total	**-**	**52,500**

Following the adoption of IFRS 16 future rental commitments are now included on the statement of financial position within lease liabilities due within one year and after one year respectively.

Notes to the Financial Statements (continued)

22. Leases – Group & Company (continued)

(b) Operating lease receipts – Group as lessor

The Group receives rental income on several office and commercial premises under non-cancellable operating lease agreements.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	31 March 2020 £'000	31 March 2019 £'000
Due to be received within 1 year	12,000	12,000
Between 1 and 2 years	8,000	11,000
Between 2 and 5 years	20,000	20,000
In 5 years or more	18,000	20,000
Total	**58,000**	**63,000**

23. Commitments and contingencies – Group and Company

Capital commitments

The Group has contracted capital commitments of £36.6m as at 31 March 2020 (2019: £42.5m).

Contingencies

The Group is from time to time party to or affected by legal proceedings and claims and enters into guarantees, financing arrangements and commitments which are in the ordinary course of business, including claims by residents close to HS1 for disturbance and loss of property value arising since the opening of the HS1; the obligation for such claims was transferred to the Company in 2008. It is not possible to predict with certainty the results of these claims, but the Directors, taking into account counter-claims, claims against third parties, provisions in the accounts, and having due regard to professional advice, do not anticipate that the outcome of these proceedings, claims, guarantees, financing arrangements and commitments, either individually or in aggregate, will have a materially adverse effect upon the Group's financial position.

24. Related parties – Company and Directors

In connection with LCR's contract to complete the sale of land to SCBDL at a pre-agreed price at the option of SCBDL, a profit of £1.6m was released in the year, nil in the 2019 and £422k in 2018. LCR's residual interest in the land is held as an 'asset held for sale' at cost of £1, as explained in note 10a.

No administrative expenses were received from the parent, associates or joint ventures.

Non-current receivables include project costs of £3,997k (2019: £3,996k) (Group and Company) which are recoverable from the Mayfield Partnership Limited Partnership.
During the year Peter Hawthorne purchased goods to the value of £275, this related party transaction was made on terms equivalent to those that prevail in arm's length transactions.

Notes to the Financial Statements (continued)

25. Parent undertaking and controlling party

At 31 March 2020 and 31 March 2019, the Company's sole shareholder was the Secretary of State for Transport (Great Minster House, 33 Horseferry Road, Westminster, London SW1P 4DR). The Secretary of State for Transport has a fixed and floating charge over all assets of the Company.

26. Accounting estimates and judgements

The Group's investment properties are carried at fair value, which necessarily means that estimates are used in determining the carrying value of non-current assets. Key assumptions include the expected yield from properties, anticipated rents, planning permissions, development costs and the rate of inflation; such assumptions are advised by the group's independent valuers.

Interest in land at Stratford with a cost of £1 is classified as 'asset held for sale' (note 10a) as it is highly probable that its value will be realised through the completion of future sales.

27. Post balance sheet event

There have been no significant subsequent events that require adjustments in this Annual Report. In providing disclosure around non-adjusting events we are seeking to provide users of the financial statements with further information to assess our financial position. There are three significant non adjusting subsequent events that require disclosure.

Transaction at IQL Stratford

On 1 July 2020 LCR completed a transaction with its JV partner Lendlease at IQL Stratford, as part of this transaction LCR received a combined land and cash consideration of £56.4m and Lendlease received a land consideration. The parties have agreed that going forward LCR will control and focus on the North part of the project, which is as yet undeveloped land to the north of Stratford station. Lendlease will control and focus on further developing the South part of the project, where development at IQL has been concentrated to date, close to the London Stadium

The JV relationship between LCR and Lendlease at IQL Stratford continues. Both partners will continue to work closely together to deliver the overarching vision for IQL. Lendlease and LCR will also both continue to hold interests in the buildings and management companies for development that has been undertaken to date at IQL.

Impact of Covid -19

The outbreak of the Covid-19 has impacted rent revenue on some of our sites. In the quarter to June 2020 the property market has slowed down with few transactions taking place. Whilst we cannot be certain how long this situation will last; we anticipate that this will have an adverse effect on our asset values and potential recoverability of our customer balances, but it is too early to determine the overall impact.

Our focus remains on taking actions and precautions to help ensure the safety and wellbeing of our customers and employees. We continue to monitor the situation, will act swiftly where necessary and are extremely grateful for the incredible effort of our team, customers, suppliers and shareholder in dealing with this global health emergency.

Notes to the Financial Statements (continued)

27. Post balance sheet event

Waterloo.London

Elongation pressure, the complexity of repurposing an existing structure and the interface with Network Rail's operational station have all contributed to increased costs at our development at Waterloo in the range of £15m - £17m.