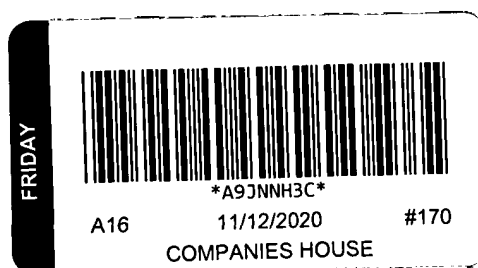


LONDON NORTH EASTERN RAILWAY LIMITED

Financial Statements for the year ended 31 March 2020

Registered number: 04659712



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Corporate information

Company information for the year ended 31 March 2020

Directors: Richard Harrison (Non-Executive)
Robin Gisby (Non-Executive)
David Horne
Suzanne Donnelly
John Doughty
Warrick Dent
Karen Lewis
James Downey (appointed 1st July 2020)

Company Secretary: Andrew Timms

Registered Office: East Coast House
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York
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Registered Number: 04659712

Independent Auditors: PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
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Leeds
LS1 4DL

Strategic Report

For the year ended 31 March 2020

The Directors present their strategic report for the year ended 31 March 2020.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

London North Eastern Railway Limited (LNER) operates as a publicly owned train company through a services agreement awarded on 24 June 2018 by the Secretary of State for Transport. The agreement sees LNER operate trains and stations across the East Coast Main Line. Prior to 24 June 2018 the Company was under the supervision of the Secretary of State for Transport as a dormant entity, therefore the comparatives included in the financial statements only represent 40 weeks of trading in the year to 31 March 2019. LNER is incorporated in and domiciled in the United Kingdom.

Throughout 2019/2020 our focus has been on the introduction of our new Azuma fleet. With the inaugural passenger service occurring on the 15th May 2019, all LNER routes were served by Azuma trains by the following December, reducing emissions per passenger and significantly improving the customer experience, with more spacious, quieter and more reliable journeys.

The increased size of our fleet with the addition of the Azuma trains has already enabled us to increase connectivity for the communities on our route. Communities such as Harrogate and Lincoln were some of the first to benefit, receiving an additional five direct services per day each to our southern terminus at London King's Cross. In the future, alongside upgrades to the route's infrastructure through the East Coast Upgrade and the East Coast Digital Programme, the fleet will be able to do even more.

Last year LNER served over 22 million passengers, who we supported with a new digital LNER Assistant, better travel updates, e-tickets, more staff training to help give people with disabilities the confidence to travel, and locally sourced food on our trains. Our latest results from the National Rail Passenger Survey show that we are on the right track with 89% (+2% year on year) of customers rating their experience of travelling with us as good/satisfied – putting us ahead of the average for the long-distance sector.

Our vision is to be the most loved, progressive and responsible way to travel, for generations to come and our purpose as a business is to put heart into everyone's journey. We drive this idea into action across our entire business and enable our people to turn purpose into practice every day.

Putting heart into our communities is much more than just the connectivity our services provide or the funding we allocate, it's how we support employability, education, culture and the environment. To do this, we pilot bold new initiatives, form local partnerships and deliver impact through our Customer and Community Investment Fund to lift communities and support them to be their best.

LNER's industry leading operations are based on operational excellence and nailing the basics, brilliantly, looking after people's health and well-being while delivering a service that has our customers' happiness, satisfaction and accessibility needs front of mind. It also means working to reduce waste from our service while tackling climate change by bringing down carbon emissions. In June 2019 we were externally verified as having Zero Waste to Landfill for our directly managed waste and are working to achieve Net Zero Carbon by 2045, five years earlier than the government target.

LNER is ambitious and is committed to becoming the most responsible train operating company in the UK.

Strategic Report (continued)

For the year ended 31 March 2020

In March 2020 LNER was significantly impacted by the Covid-19 pandemic suffering a severe drop in passenger numbers with revenue down 95% almost overnight. During the early stages of the Covid-19 restrictions in the UK, the Government advised against all but essential travel on public transport. The long distance nature of most travel undertaken on our services in normal times meant that this restriction had a greater effect on LNER than on other train operating companies, particularly those that serve the commuter market in the South of England.

As the situation has unfolded, social distancing measures mean that capacity on board is severely restricted, keeping 2 metres between seats means only 19% of seats are available for sale. Capacity does increase when social distancing is relaxed but until the restrictions in the UK ease then demand will not outstrip capacity for some time.

We also experienced constraints on staff resource, with staff in key operational cohorts being asked to self isolate and were therefore unable to work. That coupled with a lack of demand, led to a decision to reduce our timetable, with initially c40% of trains running. In May 2020 this increased to c.65% and a further step up in early July to c70%. In planning our timetable we have, up until this point prioritised providing trains to facilitate business travel, in support of the national effort. As the situation in the UK eases we will implement plans to recover our leisure market.

A dedicated steering group has been in operation throughout the crisis, with representation from all departments, including Safety & Operations. The group has devolved authority from the executive and has been able to act decisively in an agile manner. Executive and board oversight is maintained through regular reporting. Regular engagement with staff has occurred directly through normal channels as well as weekly calls hosted by the Managing Director for the management population. Good, collaborative engagement with local trade unions has helped this recovery planning.

LNER's successful track record of operating under the ultimate parent of The Secretary of State for Transport means that, unlike other Department for Transport (DfT) franchises, an Emergency Measures Agreement has not been required. The financial protection LNER receives through our Services Agreement with the DfT has ensured the business is able to withstand the drop in revenue. Decisive action has been taken throughout the crisis including the setting of robust savings targets which have been exceeded, demonstrating management's commitment to cost control and to be a good and efficient operator. Through swift actions taken we realised £6.1 million of cost savings during the last two weeks of March.

The road to recovery will be tough but we see opportunity for LNER to lead the industry in emerging from the crisis with innovative and agile solutions to help the industry improve in areas such as retailing, fares reform and the use of new technology. We will continue to work towards delivering our future railway, to provide even better connectivity for the communities we are a part of with a bigger, modern fleet of trains, upgraded tracks and a brand-new timetable. This will require the procurement of additional trains as well as working closely with Network Rail on the East Coast Upgrade and on the development and embedding of the East Coast Partnership, bringing train and track together for the benefit of our customers and communities alike.

Strategic Report (continued)

For the year ended 31 March 2020

OPERATIONAL REVIEW

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

LNER is focused on delivering our Vision, which is to be the most loved, progressive and responsible way to travel, for generations to come. To achieve this Vision, we are working hard to ensure the values of employees, customers, communities, industry and national stakeholders guide our direction, driving us to create products and services that the East Coast needs to succeed.

The business takes account of a wide range of issues, factors and stakeholder views in order to inform our direction, as evidenced by our six long-term priorities which are geared towards delivering outcomes for our stakeholders:

- Safety and performance – recognising the national commitment to run one of the safest railways in the world, and customers' priority for our train services to run on time.
- Game changers – embedding a culture of innovation throughout our business to ensure we are focused on what our customers and communities want from rail travel, now and in the future.
- Financial sustainability – ensuring we are delivering value to both our customers and taxpayers, recognising the Government's priority for revenue to be maximised and efficiencies achieved, and customers' priority for value for money travel that competes with road and air.
- Legendary customer experience – putting the customer at the heart of everything we do, resulting in increased satisfaction in National Rail Passenger Survey results, and helping to grow the East Coast's economy and protect its environment by encouraging more to use rail over other modes.
- Our people – ensuring we are striving to attract, develop, keep safe and retain the very best people.
- Responsible business and partnerships – recognising that our successful delivery is based on our cultivating of the strong stakeholder partnerships we need, within the rail industry and without, to have a positive and sustainable impact, from our performance to our environmental impact.

Ensuring the business is working in the interests of our employees

We promote an environment of equal opportunity and one free from discrimination, working in partnership with colleagues across the business and external partners to continually improve, help everyone achieve their potential and to ensure we are creating opportunities for all. A key part of this is supporting and engaging colleagues on their physical and mental health, including with our in-house team of clinical employees and health and wellbeing specialists, by signing the Time to Change pledge and training over 100 employees to be mental health first aiders.

We strive to build an inclusive and diverse organisation and are fully committed to closing the gender pay gap. To improve the diversity of candidates applying for roles within LNER in 2019 we became an endorsed employer for women with Work 180 and we are working in partnership with BAME recruitment and Together Comms to undertake targeted advertising to underrepresented groups to raise awareness of the career opportunities available.

We also closely measure our employee engagement in order to identify ways to improve, using an annual Speak from the Heart Survey and measuring employee net advocacy.

Our relationship with suppliers and rail industry partners

Partnerships play an important role in the plan and in delivering the growth which LNER is committed to. This includes our relationships with Network Rail and Hitachi, as well as the wider supply chain.

Strategic Report (continued)

For the year ended 31 March 2020

Our relationship with Network Rail is developing through our unique East Coast Partnership which has given us the opportunity to align objectives with each other, for the benefit of customers. As part of this, we are investing in a new, joint performance fund as well as implementing a partnership approach for our upcoming major timetable change, with joint industry roles to lead both areas.

Our partnerships with Hitachi and Agility Trains also continue to develop. We hold collaborative relationship building workshops three times per year, offering the opportunity to understand and align business objectives and work through issues together to provide a better, more reliable experience for our customers.

Finally, with regards to innovation, we recognise that it is impossible for LNER to innovate alone, and we pride ourselves in being the first train operator suppliers and partners think of when they have a new idea. We work with start ups and the SME community through our 'LNER Future Labs' programme to help solve business challenges and to keep ahead of the industry when it comes to technology, ideas and thinking.

Our relationship with customers, stakeholders and business partners

We keep the business aligned with customer expectations through several means, from structuring the whole business to put customers at its heart to regularly capturing customer and stakeholder insight. Our Customer Experience (ICE) Board guides the business's Customer Experience approach at a strategic level and we also use a wide range of measurements to closely follow customer interests, including the National Rail Passenger Survey (NRPS).

Guided by our dedicated Customer Insight team and using the latest survey tools, we capture and monitor our Net Advocacy Score as well as undertaking ad hoc research to understand where and how to improve the customer journey, such as through improved digital products and to inform future train modifications and procurement. In addition, we monitor the sentiment of customer engagement on our social media channels and enquiries into our customer contact team. This is built upon continuous, regular and granular insight into the customer experience, regional markets and our competition. Our insight is used to develop and maintain a culture of Continuous Improvement – addressing and implementing changes that have a positive impact on the customer journey, drive modal shift, convert non-considerers and ensure that the Voice of the Customer is embedded within LNER and at the heart of every business decision.

- We are continually seeking enhancement to our Customer Satisfaction tracking tools to incorporate feedback from multiple sources across the customer journey including; LNER bookers, social media, 3rd party bookers and Customer Solutions Centre
- Development and launch of periodic research projects to our extensive ViewPoint customer panel, supporting multiple functions across the business in an agile and cost-effective manner
- Informing and supporting our Brand and Marketing Communications team through continuous and regular tracking of our brand health and marketing campaigns to intelligently inform future media plans and ensure a positive return on investment
- Measuring the impact of the East Coast Upgrade on customer satisfaction, awareness, consideration and understanding of communication plans
- Development of a refreshed customer segmentation that gives a clear view of the attitudes and behaviours of our existing and potential customer base; to place customer needs at the fore in the development of business cases across LNER.
- Analysing and reporting the Wavelength and NRPS results to validate our customer insights and provide supporting evidence in the development of Customer Experience initiatives.
- A programme of activity that will be led by a dedicated Continuous Improvement function that will support the right decisions, initiatives and action

Strategic Report (continued)

For the year ended 31 March 2020

With regards to community stakeholders, from political representatives to local authorities and chambers of commerce, we run a calendar of regular engagement sessions to share our plans and understand their priorities. This includes Parliamentary drop-in events at Westminster and Holyrood, talks at rail user group and business forums, and an annual stakeholder conference, offering all our stakeholders the opportunity to engage with our plans and priorities in detail. Alongside this, we engage closely with stakeholders within and without the rail industry on key rail projects on our route, to understand and shape plans for the future.

We engage regularly with the Consortium of East Coast Main Line Authorities (ECMA) which is a cross-party group of Councils, Combined Authorities and Scottish Regional Transport Partnerships throughout the area served by the East Coast Main Line. Each has a responsibility for enabling economic growth in their own sections of the line – the backbone of the UK economy. ECMA works to secure investment, improve the passenger experience, improve capacity and reliability and shorten journey times on the East Coast Main Line – we are fully aligned to these aspirations and our forthcoming transformational timetable will seek to deliver these aspirations that are so important to our stakeholders.

We have also built a strong network of business partners, from informal advocates to formal, commercial partnerships, using these to ensure LNER is offering business customers and local communities the service they need to thrive. For example, we have a dedicated team of Regional Commercial Managers, who build business relationships in our key markets and a Brand Partnerships Team, who have built formal partnerships with a range of big business and community organisations on our route, giving us touch points with those people we want to attract to use rail.

Engaging with partners to support our communities, protect the environment and deliver our Responsible Business aspirations

Our Responsible Business strategy “Love the Journey” aims to ensure that as well as doing the job of a train operator we are also taking consideration of the impact we have on the environment, each other and our communities, and finding ways to improve in those areas.

Our Community Investment Strategy, part of our Responsible Business strategy, identifies the social issues that affect our people, customers and communities which we feel we can have the greatest positive impact on. This assessment is based on a network of partnerships we have built with charitable organisations and projects, as well as a materiality assessment we have undertaken, guided by Business In the Community, to ensure we are focusing on the areas that best support the long term sustainability of LNER and our local communities. The areas we have identified and work on, with our partners, are Mental Health, Employability, Education and Diversity and Inclusion.

We address these issues and receive constant feedback from our stakeholders through a variety of ways, from the provision of funds through our Customer and Community Investment Fund, with the projects selected by our customers and colleagues; we support colleague and customer engagement with our charity partner, the Campaign Against Living Miserably (CALM), by creating fundraising opportunities, enabling customers to donate their Delay Repay to CALM and by running training sessions for colleagues; and we work across the business to deliver education and employability sessions, for young people and disadvantaged groups, and sponsor events to drive inclusivity.

Being a responsible business also underpins our environmental management, with our impact being a key metric reviewed by the directors. Our Environmental Sustainability Strategy is guided through application of our ISO 14001 and ISO 50001 certified energy and environmental management system, and strengthened through our partnerships with Network Rail, industry groups, station tenants, cleaners, and colleagues.

This approach has driven us to increase our recycling segregation, achieve zero waste to landfill for our managed waste and to reduce our passenger km carbon footprint.

Strategic Report (continued)

For the year ended 31 March 2020

Our relationships help us to maintain high standards of business conduct

Our customers and partners are central to our business success and, through the activities outlined above, we strive to build and maintain a strong brand reputation and grow our business for the long term. LNER issues a Supplier Code of Conduct to its key suppliers outlining how it aspires to manage its long-term supplier relationships. Supplier performance is reviewed and monitored by a Business Lead and procurement specialist. In addition to commercial aspects, LNER is also introducing corporate social responsibility measures, such as including Social Value measures in tender evaluations, as well as auditing and monitoring suppliers from a Modern Slavery aspect. LNER is subject to the Utilities Contract Regulations, contracts over the relevant threshold are advertised in the Official Journal of the EU (OJEU).

Key Performance Indicators

In addition to monitoring financial performance, the company uses a range of performance indicators (KPIs) to assess the effectiveness of performance in key activities. The most important of these KPIs focus in the following key areas:

Employee Engagement

Each year the company undertakes an annual survey to measure employee engagement with a follow up pulse survey conducted six months later to review progress. Results from the annual 'Speak from the Heart' survey conducted in March saw the overall company engagement index rise to 80% which was an increase of 4% on the 2019 score. Significant improvements were also seen in the important employee net advocacy score, achieving an increase of 20 points over the 2019 score. We are proud to report that employee net advocacy for 2020 was +29 which indicates that a significant proportion of employees would recommend LNER as an employer.

Safety

Safety is at the heart of our approach to running the railway. Our Executive Safety, Sustainability and Security Board reviews a variety of KPIs to ensure effective monitoring of safety performance and that a proactive approach to safety is adopted by all employees. In general LNER met and exceeded a number of its ambitious targets, but also experienced a number of challenges which impacted on the measured outputs:

	2019 Moving annual average (MAA)	2020 Moving annual average (MAA)
Passenger major injuries per 1 million passenger journeys	0.18	0.44
Workforce lost time accidents per 1,000 employees	0.96	1.12
Employee physical assaults per 1,000 employees	1.09	2.07

This year saw the same level of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) reportable customer accidents as the previous reporting year with 2 recorded incidents, the customer risk equates to a FWI (Fatality and Weighted Injury) MAA of 0.060 per million train miles annum. For staff accidents there were 26 RIDDOR reportable employee accidents during the reporting year compared to the previous year risk associated with this equating to FWI to 0.040 per 1000 employees per annum.

During the reporting year there have been 80 LNER employees who have been physically assaulted. Compared to 44 the previous year. The classification for this differs to those of the police in that any physical contact is recorded as a physical assault. The highest individual causes were related to ticket enforcement and/or dealing with customers reported to be under the influence of alcohol or drugs (26% of all physical assaults making up over half of all assaults). 15% of the physical assaults related to passengers presenting themselves to the service after the dispatch process had been completed or was underway. Most of the reported physical assaults were minor in nature, but there were 5 that would be considered serious resulting in a total of 5 employees taking time off sick as a result. Although the number of

Strategic Report (continued)

For the year ended 31 March 2020

physical assaults increased during this reporting year, the number of threats of violence and verbal abuse decreased. Our approach to dealing with this risk is two fold, prevention and prosecution. Prevention through training of staff on conflict resolution, a clear policy on not putting yourself at risk and implementing local initiatives (such as dry trains and stations) that focus on areas where there is increased risk of conflict. It is our policy that we will prosecute and press for heavy penalties when offenders are apprehended. All stations and trains have CCTV which is accessible to the BTP for the pursuit of evidence in such events. All physical assaults are investigated internally.

Train Performance

Public Performance Measure (PPM) is the standard UK measure for train punctuality. It represents the percentage of scheduled trains which run their entire planned route, calling at all timetabled stations, and arrive at their terminating station within ten minutes of their scheduled time.

At the end of the 2019/2020 year LNER's PPM was 78.2%. This was an increase of 3.4% over the last year, and whilst less than the 81.2% target, still represents a significant improvement in our performance.

Along with other operators, from the start of Control Period 6 in April 2019, LNER began to track performance using three other industry measures - 'On Time', 'Time-to-3' and 'Time-to-15'. Unlike PPM, which measures performance only at destination, these measures record punctuality at all station calls along the route.

Our 'Time to 3' result for the year was 63.2% (target 65.9%) and 'Time to 15' 91.2% (target 92.8%). On Time performance was 45.1%, a solid foundation on which to aim for our target of 50% of trains being on time at all stations by April 2021. This will be the focus of a major performance improvement campaign, 'On Time 50', jointly with Network Rail which we aim to launch later this year.

Sadly, public fatalities (deliberate suicidal acts) caused the largest impact on our performance during the year. LNER partners with the Campaign Against Living Miserably (CALM), and together with Network Rail's work with The Samaritans we continue to work to reduce such events by tackling them at root cause. Our employees, including managers and directors, have attended The Samaritans' 'Managing Suicidal Contacts' courses to raise awareness of vulnerable persons and equip staff with the tools to make successful life-saving interventions.

Whilst overhead line failures in the hot weather during July 2019 did cause considerable disruption to LNER services, Network Rail has learned several lessons from this. As a result, they have both increased preventative maintenance and are progressing a programme of reliability enhancements to the overhead equipment. This work will also mitigate the impact of high winds on the railway, reducing the requirement for disruptive speed restrictions for LNER services during severe weather.

LNER successfully managed the introduction of the first new 'Azuma' trains during the year, bringing a step change in reliability compared to the 40-year-old High-Speed Train fleet they have replaced. This is forecast to bring further improvements to fleet performance, and we continue to work closely with train provider Hitachi to ensure a smooth introduction of the remaining Azuma trains throughout 2020.

Through the 'East Coast Partnership' between LNER and Network Rail, we have now appointed a single 'Joint Head of Performance' spanning both organisations. During 2020, we will combine our performance teams into a single, unified structure, whilst also refocusing our approach and governance to prioritise continuous performance improvement.

Strategic Report (continued)

For the year ended 31 March 2020

Revenue

Revenue performance was normal through to the start of February 2020 with growth of 3.2%, mainly driven by leisure demand. This growth rate was despite the suppression of business travel due to Brexit uncertainty, the General Election and a shorter than normal booking horizon resulting from delays in finalising the timetables resulting from a shift in travel to other modes, mainly air. Our new Revenue Management System (ROSE) was delivered on time and under budget in October. Uplift versus legacy system was approximately +3% (£1m per period) during a 12-week parallel run. International channels grew 57% with LNER is now the most followed TOC in China: 52k+ followers on Weibo and 49m views of our posts. Also, share vs air on the London <> Edinburgh route grew by 4.5% points.

February and March 2020 were severely affected by storms and the emerging Covid-19 threat. Revenue in this duration declined -28.7% vs last year.

Bringing Technology into UK Rail

The financial year saw the creation of a new Digital and Innovation Directorate at LNER with the objective of designing and developing a transformative digital experience roadmap for customers and employees. This investment will ensure the business is best placed to grow market share from airline and road competition.

Over the year £6.9m of capital was invested on an exciting portfolio of projects to ensure that LNER's digital offer will meet customer and employee expectations both now and in the future. 21 projects were successfully delivered across the year with a further 26 in flight going into the next financial year and another 14 in the pipeline. Notable projects include development of a brand new app experience that will enable best in class retail and in journey experience, new real time customer information systems through LNER assistant technology, introduction of digital ticketing which has seen 70% adoption through online channels, machine learning and artificial intelligence (AI), easier Delay Repay, geolocation targeting, and wayfinding.

The new year sees an even more ambitious roadmap unfolding with a focus on technology that will solve the challenges presented by Covid-19.

Customer Advocacy

LNER ended the year with a Net Advocacy Score (NAS) of 14.8, which whilst below the target of 25, is an increase of 2.2 points on last year. The trend over the year has generally been increasing however a few challenging periods of severe disruption and overcrowded services during the Christmas period brought this down. Satisfaction with being kept informed (pre journey, at the station and on board), which are key drivers of NAS, have seen increases year on year along with staff attributes which have scored consistently high and reported marginal increases over the course of the year. Azuma launched in May 2019 and reported NAS scores for Azuma operated services during the year were above the company average and the services operated by our legacy fleet.

Working with our suppliers

LNER issues a Supplier Code of Conduct to its key suppliers outlining how it aspires to manage its long-term supplier relationships and all suppliers must sign up to this before contracting with LNER. Depending on contract value, complexity and risk, contracts are regularly reviewed for performance and have both a Contract Manager from the relevant Directorate, as well as a Procurement Lead assigned to it. In addition to commercial aspects, LNER is also introducing corporate social responsibility measures, such as including Social Value measures in tender evaluations, as well as auditing and monitoring suppliers from a Modern Slavery perspective.

Strategic Report (continued)

For the year ended 31 March 2020

As an organisation that is subject to the Utilities Contract Regulations (UCR), contracts over the relevant threshold are advertised in the Official Journal of the EU (OJEU) or through an UCR compliant framework agreement such as the Crown Commercial services frameworks, and outside of this we uphold the principles of proportionality, transparency and equal treatment to ensure best value is achieved with the most suitable suppliers for any project.

As a minimum level of assurance, we expect our suppliers to ensure they meet the provisions of the Ethical Trading Initiative (ETI) Base Code or similar standards and that they are monitored by independent third parties. This includes our suppliers own first and second tier suppliers (with the aim of including third tier suppliers over time) and checks that provisions are in place in relation to paying Living Wages. We adopt a risk-based approach with our supply base to ensure significant direct labour contracts, such as our Catering and Cleaning suppliers, pay at least the National (and London) Living Wage to their employees and supply chain. This is specified in the commercial contract and audited on a regular basis.

Strategic Report (continued)

For the year ended 31 March 2020

FINANCIAL REVIEW

Prior to 24 June 2018 the Company was under the supervision of the Secretary of State for Transport as a dormant entity, therefore the comparatives included in the financial statements only represent 40 weeks of trading in the year to 31 March 2019.

The Company generated an operating profit for the year of £16.6 million (2019: £52.5 million) after £94.1 million (2019: £128.4 million) being paid to the Department for Transport as franchise premium, and operating profit before franchise premium was £110.7 million (2019: £180.9 million). The reduction in operating profit before franchise premium was primarily driven by an increase in rolling stock costs relating to the new Azuma fleet in addition to a reduction in performance regime compensation, reduced variable access charges and the impact of Covid-19 on turnover.

Turnover for the year ended 31 March 2020 was £838.7 million (2019: £680.8 million) which reflects ticket income earned from passenger services net of Delay Repay costs and associated income earned from catering, car parking and commission from the sale of tickets on other train operator services. The operating expenditure reported in the year was £822.1 million (2019: £628.2 million) with a profit before taxation of £8.4 million (2019: £53.5 million). Profit after tax in the year was £7.4 million (2019: £41.2 million). Turnover and operating expenditure were both significantly higher than the comparative year, being a full year of trading compared to 40 weeks trading in the year to 31 March 2019.

At 31 March 2020 the Company had net assets of £52.3 million (2019: £67.9 million). The Company transitioned to IFRS 16 on 1 April 2019. At 31 March 2020 net assets included right of use assets £314.2 million and lease liabilities £318.4 million.

Key risks and uncertainties

There are a number of potential risks and uncertainties that could have an impact on the Company's performance and the achievement of our objectives, not least of which has been the unprecedented business disruption caused by the recent coronavirus (Covid-19) outbreak.

This is the most significant risk to LNER and to many other businesses both in the UK and across the world and is expected to remain an on-going risk with high levels of uncertainty for some time. For LNER there is the imposition of severe restrictions on people's freedom of movement and public confidence in rail as a mode of transport. Our ability to address the risk to our business is subject to decisions made by the UK government and advice by the Public Health organisations.

During the early stages of the Covid-19 restrictions in the UK, the Government advised against all but essential travel on public transport. The long distance nature of most travel undertaken on our services in normal times meant that this restriction had a greater effect on LNER than on other train operating companies, particularly those that serve the commuter market in the South of England. The ability to recover our business in the short term depends greatly on the government easing the lockdown restrictions that have been in place in order that passengers can be encouraged to safely use public transport again. However we recognise the pace at which this easing takes place does introduce the greater risk of a second wave of Covid-19.

Social distancing measures mean that capacity on board is severely restricted, keeping 2 metres between seats means only 19% of seats are available for sale. Capacity does increase when social distancing is relaxed but until the restrictions in the UK ease then demand will not outstrip capacity for some time. We expect the costs of running our business to exceed the revenue we can earn until restrictions are fully lifted and customer confidence returns.

Strategic Report (continued)

For the year ended 31 March 2020

In addition to suppressed demand due to restrictions there is a risk of economic downturn. In the medium to longer term there is also the emerging risk of reduced demand for business travel due to the new way of working that has developed in the UK with people embracing technology to 'work from home'. Conversely, there may be opportunities in our core leisure sector through a period of 'staycation', slower return of airline travel and restrictions on movement abroad.

The Company is exposed to a number of external and internal risk factors. The business is reliant on passenger numbers which in turn are impacted by external risk factors such as Brexit, regulatory, economic and competitor activity. Under the terms of the Services Agreement, the Company falls under the regulation of the Department for Transport, and the Office of Rail and Road. Laws and regulations are subject to alteration and amendment and the costs of compliance with new legislation and regulations, including those in relation to the health and safety of our people and passengers, may have an adverse impact on the Company's financial performance. To mitigate the risk from such changes the Company proactively engages in both Government and industry groups.

Internal risks include the failure of internal controls, operational performance issues and industrial disputes. The Company operates established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information driving the business is reliable, enabling Directors to monitor and challenge the performance of the company, and make informed decisions. The Company also has an established Internal Audit programme which has been developed through a risk-based analysis of our operations. Our Internal Audit team aim to be at the forefront of strategic and technological developments throughout the business and deal with emerging risks as they arise so that, as a business, we're able to respond to these as effectively and efficiently as possible.

The threats posed to all organisations through cyber criminality continue to increase, with criminals attempting to exploit human or security vulnerabilities in order to gain access to passwords, data or misappropriate monies. To mitigate our exposure to this risk the Company has a dedicated in-house Information Security team in place. This team of suitably qualified professionals collaborate with all areas of the business to ensure that best practice is followed in respect of information security and that appropriate controls are in operation to address this key business risk area.

The retention and recruitment of key personnel is essential to ensure the Company has the appropriate correct level of expertise and industry knowledge. To mitigate this risk, the Company undertakes efficiency and effectiveness reviews to optimise organisational design and secure a sound base for development of future workforce capability.

Corporate Governance Statement

LNER did not adopt a Code of Governance in the 2019-20 financial year.

LNER is a subsidiary of DfT OLR Holdings Limited having joined the group in June 2018. LNER is governed by the LNER Board which is chaired by a Non-Executive Director and DOHL Director, and comprises 7 LNER Executive Directors, 1 other Non-Executive director & DOHL Director and is attended by the remainder of the LNER Executive Teams and a DOHL Non-Executive Director.

The Board is accountable for the overall leadership of the organisation, setting the company's strategy, values and standards ensuring accountability and shaping the culture of the organisation. The Board has delegated authority to three Board Committees to discharge its duties effectively and these Committees escalate items to the Board where Board decision making, and direction is required.

Strategic Report (continued)

For the year ended 31 March 2020

The Board defines the direction of LNER, setting policy and strategy regarding future development and provides oversight and challenge of the day to day operation of LNER, ensuring adequate systems and processes are maintained to measure and monitor LNER's effectiveness, efficiency and economy as well as the quality of its safety, service delivery and governance arrangements.

The Board met 12 times during the financial year, approximately once every 4 weeks. As standing periodic meeting items, the Board discussed safety performance, the company's performance against its Key Performance Indicators, customer advocacy scores and feedback, and the introduction of LNER's new fleet.

The three Board sub-committees and their duties are as follows:

Audit Committee – the committee oversees the adequacy and effective operation of the organisation's overall governance and internal control system, including: Risk Management, Financial, Operational and Compliance controls. The Committee also reviews and reports on these along with the related assurances that underpin the delivery of the organisation's objectives contained within the Assurance Framework.

Remuneration Committee - the Committee recommends to the Board of Directors the process for the selection, appointment, termination, compensation and benefits of Executive Directors and the senior management bonus scheme. The Committee also monitors and evaluates the performance of the Executive Directors subject to the advice of the Managing Director.

Security, Safety, Health and Environment Committee – the Committee reviews the operation of the management system and its maturity within LNER, reviews the internal audit plan and any external audit reports and assesses whether management is setting an appropriate 'culture of internal control and risk management' within the Company in relation to health, safety security and environment.

The Board reviews the Corporate Risk Register at least annually, drawing on recommendations from the Audit Committee.

The Board fully promote our vision and values which were defined by our people for our people. These underpin everything we do as a business and are the pillars on which all of our activities are built. The purpose and values link to everything we do as a business, including personal objective setting and individual development plans. Our colleagues regularly speak from the heart through our regular pulse checks on engagement levels.

Board members are drawn from a mix of backgrounds, skills, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution and there is a good ratio of females to males within the Executive team.

Clear Terms of Reference are in place for all of our Boards with appropriate non executive representation on each Board to provide relevant independent challenge. Governance arrangements are clearly defined with delegated authorities in place for individual directors to be accountable for directorate decision making. Strategic papers are submitted to Board where approval is required at higher levels of delegated authority.

The Board actively seek long-term sustainable success for the company and promote opportunities where LNER can lead the way, whether by innovating and bringing new technology into the railway or overseeing strong risk management processes.

Strategic Report (continued)

For the year ended 31 March 2020

Clear and defined risk management arrangements are in place and considered at each Audit Committee with reporting to the LNER Board. Our risk management framework is in place to respond quickly to events that impact the Company, mobilising key resources to put in recovery plans, most recently seen during the Covid-19 response.


LNER Directors ensure that the business engages closely with a wide range of stakeholders in order to ensure our strategy and priorities are focused on delivering for our colleagues and the towns and cities of the East Coast. We have a dedicated team which creates engagement opportunities with media, political, local authority, user groups and business representatives, sharing regular updates, responding to enquiries, hosting engagement events and involving them in celebratory moments, such as our local Azuma launches.

Our Commercial team builds close relationships with businesses along our route, to ensure we are providing the products and support they need and creating opportunities to enhance our presence in our priority markets.

Our Community team fosters partnerships with charitable projects and initiatives, to respond to the social challenges that we can most effect, as well as to improve the business's long term sustainability by working to improve our diversity and inclusion and to identify, nurture and recruit talent from hard to reach groups. We leverage a wide range of insight and engagement approaches, from data to dedicated forums and social media, to listen to our customers, and shape our approach to customer experience according to the improvements they most want to see.

Finally, our Internal Communications team provides a direct and two-way channel between our Directors, Business Leadership Team, managers and the wider business, with regular essential updates, opportunities for colleagues to share their views and celebrate achievements, and events and digital tools to bring the business together to focus on shared priorities.

By order of the Board



David Horne
Managing Director
30 July 2020

Registered Office: East Coast House, 25 Skeldergate, York, YO1 6DH

Directors' Report

For the year ended 31 March 2020

The Directors present their report together with the audited financial statements for the year ended 31 March 2020.

Principal activities

The principal activity of London North Eastern Railway Limited ("the Company") is the provision of passenger services on the East Coast main line.

Results and dividends

The results for the year ended 31 March 2020 are set out in the Income Statement on page 28. The results for the year have been discussed in the strategic report on page 4. A dividend of £40 million was paid on 16 August 2019 (2019: £nil). The directors do not recommend a further dividend for the year (2019: £nil).

Health and safety

The safety of employees and customers has been of prime importance and working with partners such as British Transport Police, Network Rail and other key stakeholders, the Company has put in place initiatives that will ensure, so far as is reasonably practicable, the health, safety and welfare of its staff and our customers. We continue to have a strong relationship with the Office of Rail and Road (ORR), the Safety Regulator of Britain's Railways. The Company's 2019/2020 Safety & Sustainability Plan set risk-based and targeted objectives which would maintain, and further improve, the safety and environmental performance delivered in 2018/2019 which has been recognised by the Company being awarded the Royal Society for the Prevention of Accidents (RoSPA) 'Gold Award' for safety performance improvement. This present year has been challenging. The introduction of a new train fleet has meant an increase in the number of low-level accidents such as contact with seats while walking through the train. There has also been a number of onboard accidents which were the result of substandard equipment on the new trains. We have worked actively with our train supplier to ensure that improvements are identified and implemented.

Our operational risk has continued reducing for the third year since measuring the risk in this way. We continue to implement good practice from RSSB with a specific focus on improving the capability of safety critical staff to deliver safely and punctually.

In recognition of our commitment to customer safety we were winners at the St John Ambulance Corporate Hero Awards.

Environment

Being a responsible business underpins LNER business values which includes managing our impact on the environment. In accordance with the requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations SI 2018/1155, as an unquoted company our performance data is summarised below:

Our reporting boundary includes activities associated with the operation of:

- Stations where LNER are Station Facility Operator, three Network Rail locations where we are tenants, our customer solutions centre in Gosforth where we are tenants of Virgin Money and Aberdeen Clayhills Maintenance Depot.
- Fleet in service including Azuma Class 800/801, HST 125 and IC225

Directors' Report (continued)

For the year ended 31 March 2020

Data has been collected and emission calculated in accordance with the Green House Gas Protocol Corporate Accounting and Reporting Standard.

	Scope	2018/19 Total*	2019/20 Total*	2018/19 Carbon tCO ₂ e	2019/20 Carbon tCO ₂ e
Energy					
Total gas kWh	1	3,822,597	4,117,459	794	855
Total non traction electricity kWh	2	13,414,037	13,167,026	4,239	4,161
Traction electricity (EC4T) kWh	2	247,933,704	331,512,123	78,342	104,751
Traction diesel (litres)	1	30,172,241	21,019,909	102,306	71,273
Fuel consumed in company road vehicles (diesel litres)	1	7,036	166	23**	1**
Mileage claims personal vehicles (miles)	3	19,402	17,940	7**	6**
	TOTAL			185,711	181,047
Other environmental parameters					
Total Waste (tonnes)		3,498	3,015		Na
Waste % recycled		49%	51%		Na
Total water (m3)		111,548	108,693		Na
Intensity ratios					
Carbon emissions per £million turnover				Not available	216 tCO ₂ e
Carbon emissions per passenger kilometre (traction data only)				31 gCO ₂ e	32 gCO ₂ e

*This data includes estimates

** Carbon conversion has been calculated from the primary unit in which the data was collected

Energy Efficiency Action

The introduction into service of the bi-mode Azuma trains (Class 800) and the concurrent phasing out of the HST 125's which was completed in December 2019, has resulted in a decrease in diesel consumption as the bi-mode capability has minimised diesel running under electric wires. In comparison to the previous year's operation 2019/20 diesel fuel consumption was 9,152,333 litres less than 2018/19. (It should be noted that for part of 2018/19 the franchise was operated as Virgin Trains East Coast).

The business has maintained certification to ISO 14001 and ISO 50001 environmental and energy management systems standards.

Waste Management

2019/20 was a positive year for recycling across the business, we achieved Valpak externally verified Zero Waste to Landfill for our managed waste in June 2019 and overall average recycling rates improved to 22% from in comparison to the previous year average of 15%. This was facilitated through close monitoring at York Station to demonstrate the benefit of improving bin signage which was rolled out at other locations; engagement of front line colleagues and cleaners through briefs and site visits, the introduction of additional waste streams for tenants with a particular focus on food waste, manual sorting exercises at Newcastle and York to determine the recycling opportunities and improved data reporting. We joined the RSSB working group on waste management and attended other forums to ensure we maintain an approach that is consistent with industry.

We have also worked hard with designers and Network Rail to achieve DfT approval for coffee cup collection points at our Stations and have built relationships with external organisations to facilitate a prominent cup recycling scheme once the Covid 19 situation permits.

Directors' Report (continued)

For the year ended 31 March 2020

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Richard Harrison

Robin Gisby

Richard George Resigned 19/07/2019

David Horne

Suzanne Donnelly

John Doughty

Warrick Dent

Elizabeth Hanna Resigned 31/10/2019

Karen Lewis

James Downey Appointed 01/07/2020

No Director had any interest in the share capital of the Company during the financial year (2019: nil).

The Company entered into no significant contract or arrangement during the year in which any Director had a material interest.

Company Secretary

The Company Secretary was Andrew Timms until 1st July 2020. James Downey was appointed Company Secretary on 1st July 2020.

Employees

An authentic culture of inclusion where people feel able to bring their 'whole self' to work is important to us and we continue to work hard to address any discrepancies. We are committed to establishing and maintaining a genuinely inclusive and diverse workforce reflective of the customers and communities we serve. We promote an environment of equal opportunity and one free from discrimination and we work to a policy in which no employee receives less favourable treatment on the grounds of their colour, nationality, race, religion/belief, ethnic or national origin, sex, marital or civil partnership status, gender reassignment (whether proposed, started or completed and under or not under medical supervision), disability or past disability, part-time or fixed-term status, pregnancy or maternity, parental responsibilities, sexual orientation, age (a protected characteristic) or membership or non-membership of a trade union.

We have delivered a variety of inclusion and diversity programmes throughout the year and set targets, and this continues to be an area of focus.

Employee Representation Measurements

Gender: At LNER we created employment for 3,226 people and 58% of all those roles are occupied by males and 42% female with a significant number of female representation occupying management grades at 40.6% overall. 29% of our senior management (Head of Department roles) are occupied by women and at executive director level 44% of the team are female, or 50% when excluding the Managing Director role. We also have just over 10% female drivers within our driver workforce, although this appears a small percentage it is 4% higher than the national average across train

Directors' Report (continued)

For the year ended 31 March 2020

operators. We are working hard on increasing the interest and opportunity of the critical Train Driver role to women and have seen much success over the year, and we shall be pushing ourselves harder through the next financial year.

In recognition of our efforts to date we were very proud to be awarded at the 2019 Women in Rail Awards for the 'highest gender balance workforce'.

Each year we publish our Gender Pay Gap report which highlights the activity we are undertaking to address the gap under the following key areas:

- Inspiring the next generation: raising awareness of career opportunities available through our partnerships with schools, our annual Summer Academy programme and work placements for students studying travel and tourism.
- Attracting talent: using our application tracking system to effectively monitor the diversity of candidates at each stage of the application process. Undertaking gender neutral advertising and targeted campaigns to attract applications from underrepresented groups. We will continue introducing further and more stringent mitigation in our talent processes this year.
- Developing talent: creating opportunities for new roles and upskilling our existing workforce through our Apprenticeship Programme. For Youth Apprentices, as well as gender, we specifically target areas across our route that have under privilege to create employment and growth opportunities.
- Working with other allies: supporting the development of women through the cross-industry Women in Rail mentoring scheme and by leading the Yorkshire arm of the Women in Rail Network. Also, working collaboratively with our Inclusion Network and trade union colleagues to make our policies and ways of working more inclusive.

Ethnicity: whilst the above summarises our commitment to improving gender balance and reducing the gender pay gap, we are also focused on improving the ethnicity demographic within our workforce to one that fully represents the communities across our route. We will be focusing harder this year on the mitigation required in our talent processes to ensure that we increase the opportunities for our BAME colleagues, and that representation is appropriate. In the financial year 2021, we also plan to undertake an ethnicity pay gap review ahead of any potential statutory requirements, and that review will create a solid action plan for us to challenge ourselves.

Our current employee representation for colleagues that identify as BAME is 7.91% against a local population of 14% (source: ONS). Across our route we are a little underrepresented in Scotland (LNER 2.22% ONS 3.8%), North (LNER: 3.27% ONS 4.7%) and South/London (LNER 23.41% ONS 27.3%). In our Central region we have more significant under representation and we are committed to more detailed action planning to take place in that area this year (LNER 4.53% ONS 11%). Of our overall management population, 6% identify as BAME and whilst there is much work to do, we are pleased that within our senior management roles (Head of Department) 14.3% of our colleagues identify as BAME.

We have built some solid foundations, fixing the basics around diversity and inclusion this year which enables us to now build sustainable diversity and inclusion (D&I) which will involve setting up strategy and structure that:

- Aligns D&I to business strategy driving broader ownership across the organisation;
- Measures D&I progress on D&I strategy overtime with a comprehensive indicator; and

Directors' Report (continued)

For the year ended 31 March 2020

- Embeds D&I into existing talent and business processes to ensure D&I values are sustainably changed and consistently applied.

A great place to work

Across all colleagues, we want to create a 'great place to work' and an environment where our people are engaged and have opportunity to reach their full potential. In February 2020 we were certified as one of Britain's Top Employers by the Top Employers Institute. To create a culture where our people can perform at their best, there is a significant focus on the physical health and mental wellbeing of our employees. Our in-house team of clinical employees and health and wellbeing specialists promote health awareness at work and at home through clinic appointments, drop-in surgeries, monthly health related topics and mobile Apps. We are committed to reducing the stigma associated with mental ill health and have signed the Time to Change pledge. We have trained over 100 employees to be mental health first aiders and these individuals raise awareness of mental health and offer support to colleagues who may be suffering. All our employees have access to an Employee Assistance Programme (EAP) which provides counselling, legal advice and services to help them deal with events and issues in their work and personal lives.

Our processes for developing our people has improved and moved on during the year although there is much more to do. We are committed to ensuring there are open and active opportunities for all our people to develop their skills, knowledge and behaviours and we are modernising our learning and development offer which has been traditional and not always easy to access.

Significantly, in March 2020 LNER was accepted onto the Education and Skills Funding Council (ESFA) Register of Approved Training Providers as an Employer Provider. This allows us to deliver training under Apprenticeship standards, providing trainees with a professional qualification and for LNER to receive the Apprenticeship Levy income. We plan to deliver a minimum 40 Train Driver Apprenticeships in the financial year ending 31 March 2021 bringing a minimum £840,000 of Apprenticeship Levy funding back into LNER to reinvest in further upskilling of our teams to delivery fantastic services and products to our customers.

We have started to work on a strategy of prime internal education and training to ensure that LNER colleagues are the best they can be and have access to the best training in the industry. We will do this in partnership with York College and the Cambridge Regional College (we are currently also investigating a partnership with a Scottish establishment). So far this year through this strategic partnership we have been able to access Adult Education Budget funding worth in excess of £180k supporting 115 people to achieve L2 national standard professional qualifications.

Community Engagement

Charitable and political donations

LNER made charitable donations totalling £23,788 during the year ending 31 March 2020 (2019: £23,250) including £23,750 to the Railway Mission Chaplaincy.

LNER provided £469,000 through the Customer and Community Investment Fund during the year ending 31 March 2020, which supported projects such as:

- Positive Mental Health in the outdoors – Outdoor activity programme has been delivered to primary school pupils in Kingussie and Aviemore, to proactively support their positive mental health.
- Outings for those living with dementia - The outings helped to get people living with dementia and their carers out of the house, providing a stimulus, enjoyment and above all combatting loneliness.

Directors' Report (continued)

For the year ended 31 March 2020

- Walker into Work - A scheme to enhance opportunities for young people from Walker Riverside Academy to progress into meaningful work with a career's focus. The programme took 101 young people on a journey of discovery and information to raise ambition.
- On Track for the Future - Provided travel training for people with learning disabilities in Nottinghamshire, to broaden their horizons, and to build their confidence in using the public transport system safely and with enjoyment.

There were no political donations made in the year (2019: £nil).

1,777 volunteer hours have been recorded by LNER employees and £133,470 has been raised through our community engagement activities and from encouraging customers to donate their Delay Repay compensation to help tackle suicide with our charity partner the Campaign Against Living Miserably (CALM).

Ticket donations to the value of £31,638 were made in raffle prize donations, which helped raise £151,697 for a range of charities. Tickets worth a total value of £91,549 were donated for charitable requests for travel.

LNER were sponsors of four regional Pride events in 2019 and continue to work with HMP Askham Grange prison, hosting 3 work placements as a result of positive engagement with residents. The LNER 2019 Summer Academy had 28 students attend and one permanent role offered as a result of a successful interview and more than 600 students were reached through school visits and careers talks.

Financial Risk Management

Regular reviews are undertaken of the realisable value of those assets and liabilities, and cash flow forecasts are produced to ensure the Company can meet its external liabilities as they fall due.

The Company's activities exposed it to a variety of financial risks. Price risk was managed by the Company having a solid understanding of the markets that it operated within and setting appropriate fares for each of these markets. A proportion of its fares are fixed prices which are set annually and are subject to regulatory approval. Credit risk was managed by cash being held by large high street financial institutions with satisfactory credit ratings, furthermore all significant receivable balances are managed to ensure that the credit quality of the counterparty is satisfactory. Liquidity risk is controlled by the Company ensuring that there is a sufficient mixture of long-term and short-term debt finance to meet planned operations. Cash flow risk is managed by cash flow budgeting and forecasting and availability of long-term debt facilities if required.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

Directors' Report (continued)

For the year ended 31 March 2020

- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Going Concern

As noted in the Strategic Report, the going concern basis is deemed appropriate as our business will continue and is central to the recovery of the country economically and socially. Rail workers are defined as key workers (published by the Government on 19 March 2020) and the Government announced on 23 March 2020, that the rail industry was vital to keeping the country moving in terms of both passengers and freight, "The continued operation of both passenger and freight transport is critically important to our resilience as a country". These statements from the Government underline the importance of the rail industry during the Covid19 pandemic and that it is central to the Government's strategy for recovery.

LNER is 100% owned by Department for Transport (DfT) OLR Holdings Limited whose ultimate parent undertaking and controlling party is the Secretary of State for Transport and is underwritten by the financial security of the UK government.

An extension to the Services Agreement with the DfT recently came into effect. The extension will run for three years until 28 June 2023, with an option for a further two years. The agreement retains the 'fixed service payment', similar to a subsidy from the DfT which reflects the revenue and costs in the business. The subsidy is the balancing amount to bring the profit in line with the agreed pre-defined profit margin between both parties.

Detailed cash forecasts have been prepared and shared with the DfT which demonstrate that the Company has sufficient liquidity to meet its liabilities as they fall due.

Indemnification of directors and officers

The Company's ultimate parent maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against the directors of the Company. The ultimate parent has indemnified each of the Company's directors and other officers of the Company against certain liabilities that may be incurred as a result of their offices. This was in force during the financial year, and at the date of the approval of the financial statements, and there was no utilisation of the insurance/indemnification during the financial year.

Directors' statement of disclosure of information to auditors

The Directors who held office at the date of approval of the Directors' Report confirm that insofar as the Directors are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and they have taken all the steps required of them as Directors in order to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Directors' Report (continued)

For the year ended 31 March 2020

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act.

The financial statements on pages 28 to 58 were approved by the Board of Directors on 30 July 2020 and signed on its behalf by



David Horne

Managing Director

30 July 2020

Registered Office: East Coast House, 25 Skeldergate, York, YO1 6DH, United Kingdom.

Independent auditor's report to the members of London North Eastern Railway Limited
For the year ended 31 March 2020

Independent auditors' report to the members of London North Eastern Railway Limited
Report on the audit of the financial statements

Report on the audit of the financial statements

Opinion

In our opinion, London North Eastern Railway Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2020; the income statement, the statement of other comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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 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.

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

Independent auditor's report to the members of London North Eastern Railway Limited

For the year ended 31 March 2020

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

Independent auditor's report to the members of London North Eastern Railway Limited

For the year ended 31 March 2020

ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Andy Ward (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

31 July 2020

Income Statement

For the year ended 31 March 2020

	Note	2020 £000	2019* £000
Revenue			
Passenger income	2	782,180	622,746
Other operating income	2	<u>56,484</u>	<u>58,014</u>
Total Revenue		838,664	680,760
Other operating costs		<u>(822,109)</u>	<u>(628,229)</u>
Operating profit	3	16,555	52,531
Finance income	6	1,887	1,388
Finance and similar charges	6	<u>(10,055)</u>	<u>(425)</u>
Profit before taxation		8,387	53,494
Tax on profit	7	<u>(1,023)</u>	<u>(12,268)</u>
Profit for the financial year		<u>7,364</u>	<u>41,226</u>

The Income Statement has been prepared on the basis that all operations are continuing operations.

The accompanying notes form an integral part of this Income Statement.

*2019 comparatives include only 40 weeks of trading in the year to 31 March 2019.

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

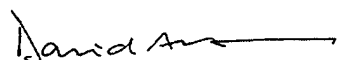
		2020	2019*
	Note	£000	£000
Profit for the financial year		7,364	41,226
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial gain on retirement benefit obligations	20	21,790	26
Deferred tax defined benefit pension		<u>(4,141)</u>	<u>(4)</u>
Other comprehensive income for the period, net of tax		17,649	22
Total comprehensive income for the period		<u>25,013</u>	<u>41,248</u>

Statement of Financial Position

As at 31 March 2020

	Note	2020 £000	2019 £000
ASSETS			
Non-current assets			
Intangible assets	8	23,124	29,071
Tangible assets	9	342,437	17,938
Investments	10	-	-
Retirement benefit asset (net)	20	41,304	28,073
		<u>406,865</u>	<u>75,082</u>
Current assets			
Inventories	11	3,136	2,142
Trade and other receivables: amounts due within one year	12	82,831	136,408
Cash at bank and in hand		92,900	33,359
		<u>178,867</u>	<u>171,909</u>
Total assets		<u>585,732</u>	<u>246,991</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	(312,929)	(172,722)
Non-current liabilities			
Trade and other payables	13	(212,022)	(94)
Provisions for liabilities	14	(8,481)	(6,246)
		<u>(220,503)</u>	<u>(6,340)</u>
Total liabilities		<u>(533,432)</u>	<u>(179,062)</u>
Net Assets		<u>52,300</u>	<u>67,929</u>
EQUITY			
Ordinary share capital	16	-	-
Capital contribution	17	26,039	26,681
Retained earnings	17	26,261	41,248
Total shareholders' funds		<u>52,300</u>	<u>67,929</u>

The accompanying notes form an integral part of this Statement of Financial Position. The financial statements on pages 28 to 58 were approved by the board of Directors on 15 July 2020 and were signed on its behalf by



David Horne, Managing Director
30 July 2020

Statement of Changes in Equity

As at 31 March 2020

	Ordinary share capital	Capital contribution	Retained earnings	Total shareholder funds
	£000	£000	£000	£000
As at 31 March 2018	-	-	-	-
Profit for the year	-	-	41,226	41,226
Other comprehensive gain for the year	-	-	22	22
Total comprehensive income for the period	-	-	41,248	41,248
Capital contribution	-	32,146	-	32,146
Deferred tax on defined benefit pension transferred in	-	(5,465)	-	(5,465)
As at 31 March 2019	-	26,681	41,248	67,929
As at 31 March 2019	-	26,681	41,248	67,929
Profit for the year	-	-	7,364	7,364
Other comprehensive gain for the year	-	-	17,649	17,649
Total comprehensive income for the period	-	-	25,013	25,013
Dividend paid (note 17)	-	-	(40,000)	(40,000)
Deferred tax on defined benefit pension transferred in	-	(642)	-	(642)
As at 31 March 2020	-	26,039	26,261	52,300

The capital contribution represents the defined benefit pension asset as at 24 June 2018 and associated deferred tax.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies

The Company is a private limited company limited by shares and registered in England. The address of the Company's registered office is shown on page 3 and a description of the Company's principal activities are set out on page 17. The Company was incorporated in 2003 and is domiciled in the United Kingdom.

The Company operates as a publicly owned train company through a services agreement awarded on 24 June 2018 by the Secretary of State for Transport. An assumption of a three year service agreement was used in the prior year financial statements and during the year to March 2020 based on the initial service agreement (which runs to the 27 June 2020) of two years with an additional year for the tendering process required to award a new service agreement. This assumption has been updated at the year ending 31 March 2020 to reflect the agreed extension from 28 June 2020 until 24 June 2023. This affects the financial statements in respect of pension accounting, intangible assets and reporting for leases under IFRS16. The change in the life of the service agreement has contributed to an increase in the pension asset surplus. Mobilisation costs amortisation has been accelerated, based on the initial service agreement term and IFRS 16 lease liabilities have been restricted to 24 June 2023, representing the end of the core period of the extension.

The principal accounting policies applied in the preparation of these financial statements are set out below, and, unless otherwise stated, these policies have been consistently applied to all the periods presented.

a) Basis of preparation

The basis for preparation for these financial statements has been on a going concern basis, as explained in the Directors' report on page 22. Amounts in these financial statements are presented in sterling, rounded to the nearest thousand (£000) unless otherwise indicated.

As noted in the Strategic Report, the going concern basis is deemed appropriate as our business will continue and is central to the recovery of the country economically and socially. Rail workers are defined as key workers (published by the Government on 19 March 2020) and the Government announced on 23 March 2020, that the rail industry was vital to keeping the country moving in terms of both passengers and freight, "The continued operation of both passenger and freight transport is critically important to our resilience as a country". These statements from the Government underline the importance of the rail industry during the Covid19 pandemic and that it is central to the Government's strategy for recovery.

The Company is 100% owned by Department for Transport (DfT) OLR Holdings Limited whose ultimate parent undertaking and controlling party is the Secretary of State for Transport and is underwritten by the financial security of the UK government.

The Services Agreement with the DfT runs includes a 'fixed service payment' which reflects the revenue and costs in the business. The payment is the balancing amount to bring the profit in line with the agreed pre-defined profit margin between both parties.

Detailed cash forecasts have been prepared and shared with the DfT which demonstrate that the Company has sufficient liquidity to meet its liabilities as they fall due.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

a) Basis of preparation (continued)

These financial statements have been prepared under the historic cost convention in accordance with United Kingdom Accounting Standards, in particular Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. The Company is a qualifying entity (see note 22).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 10(d), 10(f), 16, 38A-D, 40A-D, 111 and 134-136 of IAS 1, Presentation of financial statements
- IAS 7, Statement of Cash Flows
- The requirements of paragraph 17 of IAS 24, Related Party Disclosures
- Paragraph 73(e) of IAS 16, Property, Plant and Equipment
- Paragraph 118(e) of IAS 38, Intangible Assets
- Paragraphs 91 to 99 of IFRS 13, Fair Value Measurement
- Paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customer

b) Revenue

Passenger income represents amounts agreed as attributed to the Company by the income allocation systems of the Rail Settlement Plan Limited ("RSP"), mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passengers' travel patterns and, to a lesser extent, from allocations agreed for specific revenue flows. The attributed share of season ticket income can involve some estimation – for example revenue is deferred within creditors and released to the Income Statement over the year of the relevant season ticket.

Travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Furthermore, certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, our passenger income includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited. RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage.

Procedures exist to allow operators to challenge the appropriateness of revenue allocation – where the revenue allocated to the Company is subsequently adjusted, the effect of the adjustment is recognised in the Income Statement in the period in which we are made aware of it. Where an adjustment results in additional revenue being attributed to the Company, the additional revenue is recognised when the amount of revenue can be reliably estimated, and it is highly probable that the economic benefits will flow to the Company.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

b) Revenue (continued)

Delay Repay customer compensation, which is compensation paid to customers who have experienced a delay of more than 30 minutes on their journey, is treated as a reduction in passenger income rather than as an operating cost in line with IFRS 15 Revenue from Contracts with Customers.

Other operating income is generated in the course of the company's ordinary activities and is derived from ticket commissions, car park income, station trading income, catering sales, depot and station access payments and the provision of goods or services to other train operating companies and excludes VAT. Revenue is recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. Revenue from services is recognised on the basis of agreed rates and is recognised over time over the period the services are rendered. Commission income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

Deferred income is generated when passengers purchase tickets for travel in future financial periods. This is then released in the same financial period as the travel. The value of the deferred income is reported through the income allocation system detail.

c) Performance incentive payments

Performance incentive payments received from or made to Network Rail by the Company in respect of rail operational performance are recognised in the same period that the performance relates to and are classified within operating costs.

Accrued income is generated from performance payments made to LNER by Network Rail which is then settled in a future period. The income is generated when Network Rail take possession of the track to do maintenance work or due to on the day disruption caused by an entity other than LNER.

d) Premium

Under the Services Agreement London North Eastern Railway is required to pay a financial premium to the Department for Transport. Fixed service payments paid to or received from the Department for Transport (DfT) are recognised in operating costs on an accrual basis for the related income or cost for which it is intended to compensate.

e) Taxation

Tax, current and deferred is calculated using tax rates and laws enacted or substantively enacted at the Statement of Financial Position date.

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

f) *Deferred tax*

Deferred tax is recognised in respect of all material temporary differences that have originated, but not reversed, by the Statement of Financial Position date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse.

Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

g) *Dividends*

The Company has accounted for dividends in the Statement of Equity on page 30 when approved by the Board and paid during the year.

h) *Tangible assets*

Tangible assets are stated at historic cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of fixed assets over their expected useful economic lives as follows:

Leasehold land and buildings	3 - 10 years or lease term
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Plant and equipment	3 - 10 years or lease term
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Assets in the course of construction are not depreciated until they are available for use and on completion are transferred to the appropriate asset class.

The need for impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

i) *Intangible assets*

Intangible assets are shown at their original historic cost net of amortisation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Amortisation is charged on a straight-line basis over their expected useful economic lives as follows:

IT Software	3 - 5 years or lease term
-------------	---------------------------

Mobilisation costs	the expected life of the initial service agreement
--------------------	----------------------------------------------------

The need for any impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

Mobilisation costs capitalised comprise rebranding, marketing, recruitment, media, uniform, system and professional services costs. The expected life of the service agreement has changed during the year from three years to five years which has had the effect of shortening the initial service term used for the expected useful economic life of initial mobilisation costs. Amortisation of mobilisation costs have therefore been accelerated during the year.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

j) *Right of use assets*

The Company adopted IFRS 16 during the year from a transition date of 1 April 2019. Right of use assets comprise rolling stock, offices and other property leases plus depot equipment.

On initial application right of use assets of £69,000,000 and lease liabilities of £69,000,000 were recognised. The Company transitioned to IFRS 16 in accordance with the simplified approach and prior year figures were therefore not adjusted.

On transition the right of use asset costs were measured as the amount of the lease liability, adjusted by payments in advance, incentives received and where applicable repair costs. Lease costs of low value assets and short-term leases (less than 12 months) are recognised directly in expenses. As part of the initial application of IFRS 16 the Company chose to apply the accounting for short-term leases in IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application.

At the lease commencement the Company recognises both a right of use asset and a lease liability. Right of use assets are initially measured at a cost which includes:

- the initial measurement of the lease liability using the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Company will use their incremental borrowing rate;
- the lease payments made before or after commencement, less the lease incentives received;
- an estimate of the costs incurred upon disassembling and eliminating the underlying asset, including restoring the underlying asset to the condition required by the terms of the lease.

After the commencement date the Company measures its right of use assets using a cost model. Right of use assets are depreciated over the shorter of the lease term and the practical end of the current service period and are presented as part of tangible assets in note 9. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

Corresponding lease liabilities are presented and accounted for as current and non-current liabilities in note 19. After the commencement date the Company measures its right of use liabilities by increasing the carrying amount to reflect the interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect new measurements or changes in the lease.

k) *Inventories*

Inventories are valued at the lower of cost and net realisable value on a weighted average cost basis. Cost comprises direct costs and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Where necessary, provision is made for obsolete, slow moving and defective inventory.

l) *Grants*

Capital grants are credited to deferred grant income and released to operating costs within the Income Statement over the estimated useful economic lives of the related assets to depreciation. Deferred capital grant income is presented and accounted for within current and non-current liabilities in note 13.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

m) Retirement benefit obligations

The Company contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 20.

The Company participates in the Railway Pension Scheme, a defined benefit scheme which covers the whole of the UK Rail industry. This is partitioned into sections and the Company is responsible for the funding of the sections during the period of the service agreement. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes. The level of contributions paid by the Company is in line with the latest certified schedule of contributions which was signed in 2013. The 2016 funding valuation of the RPS has not yet been signed.

As a result of the change in the estimated life of the service agreement to 24 June 2023 and a lower level of contributions being paid in line with the 2013 valuation, the surplus has increased from the asset as at 31 March 2019. The impact of the extension of the service agreement is treated through Other Comprehensive Income.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the Income Statement.

Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are included in interest costs. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of other comprehensive income in the period in which they arise.

The charges in respect of defined contribution schemes are recognised when they are due. The Company has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

n) Accounting for participation in Railways pension scheme

As disclosed in note 20, the Company applies a "current service period adjustment" to the amounts recorded in the Statement of Financial Position for the RPS. This represents the remaining element of the service operator's 60% share of the IAS 19 deficit or surplus after determining the amount of any deficits the Company is required to fund (or surplus it is entitled to recover) over the remaining service period.

This adjustment can give rise to a net pension asset, representing the expected excess of the Income Statement expense under IAS 19 for service cost and net interest over the contributions payable over the remainder of the service agreement. The economic benefit of the asset is expected to be realised through the lower cash contributions over the remaining period of the service agreement, and therefore upon the expiry of the service period, there will be no pension asset (or liability) remaining. This judgement is consistent with the industry wide accounting treatment for the RPS that was agreed on adoption of IFRS in 2005.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

o) Provisions

Provisions for current obligations and legal claims are recognised when: The Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The amount of any provision is re-assessed at each Statement of Financial Position date. Any increase or decrease required to the amount of the provision is charged or credited to the Income Statement.

p) Investments

Fixed asset investments are carried in the Statement of Financial Position at fair value which is considered to be immaterial. All the fixed assets investments are subject to an impairment review at any time if events or changes in circumstances indicate that their carrying value may not be recoverable.

q) Financial instruments

Financial instruments held by the company are trade and other receivables, trade and other payables and cash.

Trade receivables are recognised initially at the amount of consideration that is unconditional. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

r) Critical estimates and judgements

Preparation of the financial statements, in accordance with Financial Reporting Standard ("FRS") 101, requires directors to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual outcomes could differ from those estimated. The Directors believe that the accounting policies and estimation techniques discussed below represent those that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas, but a different set of judgements could result in material changes to the Company's reported financial performance and/or financial position.

The critical estimates and judgements summarised below cover those regarded by the Directors as critical to the Company's reporting in general.

i. Pensions - estimate

The determination of the Company's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, the annual rate of increase in future salary levels and mortality rates. The Directors' assumptions are based on actual historical experience and external data.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

r) i. Critical estimates and judgements (continued)

While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

The pension assumptions may vary due to actual changes in market conditions following the Statement of Financial Position date, but IAS 19 requires the assumptions to be set based on the market conditions prevailing at the Statement of Financial Position date. The pension assumptions are also affected by judgements the Directors are required to make on matters that cannot be directly observed from market prices such as life expectancies, future pay increases, harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined. Note 20 provides information on the sensitivity of pension benefit obligations to changes in assumptions.

ii. LNER service agreement term assumption - estimate

An assumption of a three year service agreement was used in the prior year financial statements and during the year to March 2020. This was based on the initial service agreement (which runs to the 27 June 2020) of two years with an additional year for the tendering process required to award a new service agreement. This assumption has been updated at the year end to include an agreed direct award from 27 June 2020 until 24 June 2023.

This judgement affects these financial statements in respect of pension accounting, intangible assets and reporting for leases under IFRS16.

The change in the estimated life of the service agreement has contributed to an increase in the pension asset surplus. Mobilisation costs amortisation has been accelerated, based on the initial service agreement term and IFRS 16 lease liabilities have been restricted to the end of the direct award 24 June 2023.

iii. Measurement of lease liabilities and right of use assets – judgement & estimate

The application of IFRS 16 requires the Company to make judgements that affect the measurement of right of use assets and lease liabilities (note 19). These include assessing whether a contract includes a lease, determining variable lease components, contract term and appropriate discount rate used to measure lease liabilities.

Items outside the scope of IFRS 16 include contracts with Network Rail for access to the railway (track access) infrastructure and access charges for stations, short term leases which include rolling stock handed back during the year, low value leases and maintenance and variable lease components for rolling stock retained during the year.

The lease term generally comprises the non-cancellable period of lease contracts plus periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. Longer lease terms have been reassessed to the practical end of the current service period 24 June 2023 being the period of use for the Company, which is an estimate.

Costs to restore underlying assets to the condition required by the terms of the lease are estimated.

s) Accounting standards adopted in the year

IFRS 16 'Lease Contracts'

IFRS 16 eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. Lease contracts are now recognised in right of use assets and in lease liabilities representing the discounted value of future payments.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

1 Accounting policies (continued)

s) *Accounting standards adopted in the year (continued)*

Leases within the scope of application of IFRS 16 for the Company comprise rolling stock, offices and other property leases plus depot equipment.

Right of use assets of £68,766,000 and lease liabilities of £69,454,000 were recognised as at 1 April 2019 on initial application. The Company transitioned to IFRS 16 in accordance with the simplified approach. The prior year figures were not adjusted.

On transition the right of use asset costs were measured as the amount of the lease liability, adjusted by payments in advance, incentives received and where applicable repair costs. Lease costs of low value assets and short-term leases (less than 12 months) are recognised directly in expenses. As part of the initial application of IFRS 16 the Company chose to apply the accounting for short-term leases in IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application. This primarily relates to legacy rolling stock that was held as at 1 April 2019 but returned to the lessor prior to 31 March 2020.

Operating lease commitments disclosed when applying IAS 17 as at 31 March 2019 included contracts with Network Rail for access to the railway (track access) infrastructure and access charges for stations not within scope of IFRS 16.

Amounts for rolling stock included the fleet handed back during the year which are now classified as short term leases and maintenance and variable lease components for the fleet retained during the year. The commitments also included ticket barriers now classified as short term leases and IT equipment now classified as low value leases.

The reassessment of the service period from June 2021 to June 2023 led to a remeasurement of the right of use assets and liabilities during the year.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

2 Revenue

All revenue originates in the United Kingdom.

The Directors consider that the whole of the activities of the Company constitute a single class of business consisting of passenger and other related operating income as disclosed in the Income Statement.

Revenue, excluding value added tax (VAT) where applicable, is comprised of:

	2020	2019*
	£000	£000
Passenger revenue	803,987	636,586
Delay Repay costs	(21,807)	(13,840)
Total passenger income	782,180	622,746
Other operating income	56,484	58,014
Total Revenue	838,664	680,760

Other operating income comprises of car park income, commercial property income, railway station access income, maintenance income, fuel sales, on board catering income and commissions receivable.

3 Operating profit

	2020	2019*
	£000	£000
Operating profit is stated after charging/(crediting):		
Franchise premium	94,137	128,368
Staff Costs (note 5)	171,131	132,634
Depreciation (note 9)	84,770	3,310
Amortisation of intangible assets (note 8)	14,382	8,340
Inventories recognised as expenses	9,986	19,351
Lease rentals outside the scope of IFRS 16		
- Fixed track access	50,399	45,133
- Land and buildings	-	3,591
- Rolling stock costs	115,532	63,495
- Plant and machinery	115	1,178
- Other	6,458	4,704
Variable Access Charges	28,925	49,826
Auditors' remuneration – audit fees	74	89
Auditors' remuneration – non audit services		
- other compliance reporting	104	19

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

4 Directors' remuneration

	2020	2019*
	£000	£000
Emoluments in respect of qualifying services to the Company	1,206	977
Compensation for loss of office	96	117
Company pension contributions	82	77
	<u>1,384</u>	<u>1,171</u>

The emoluments excluding pension contributions of the highest paid Director were £336,000 (2019: £266,000).

The pension contributions of the highest paid Director were £19,000 (2019: £17,000).

The number of directors who were members of pension schemes during the year was as follows:

	2020	2019*
	Number	Number
Defined benefit scheme	<u>6</u>	<u>8</u>

The highest paid director accrued defined pension benefits of £67,000 (2019: £65,000) and lump sum benefits of £54,000 (2019: £51,000).

Contractual Payment on Termination relating to one Director amounted to £96,000.

The following table shows the annual salary ranges for the executive Directors as at 31 March 2020:

Salary range	Number of Directors
£230,000-235,000	1
£140,000-144,999	1
£135,000-139,999	2
£130,000-134,999	1

None of the non-executive Directors (R Harrison, R Gisby and R George) during the year received any remuneration from the Company. Their remuneration is paid by, and reported in the Annual Report of, LNER's parent company DfT OLR Holdings Limited.

5 Staff costs

	2020	2019*
	£000	£000
Wages and salaries	136,333	107,225
Social security costs	12,936	10,028
Other pension costs	<u>21,862</u>	<u>15,381</u>
	<u>171,131</u>	<u>132,634</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

5 Staff costs (continued)

The average monthly number of full-time equivalent employees (including Directors) during the year was as follows:

	2020 Number	2019* Number
Managerial and administrative	488	501
Operational	2,490	2,531
	<u>2,978</u>	<u>3,032</u>

6 Finance income and charges

	2020 £000	2019* £000
Finance income		
Bank interest	102	101
Interest receivable from group undertakings	1,055	611
Pension interest	730	676
	<u>1,887</u>	<u>1,388</u>
Finance charges		
Interest payable to group undertakings	-	(425)
Interest payable for IFRS 16 lease liabilities	(10,055)	-
	<u>(10,055)</u>	<u>(425)</u>
Net finance (charge)/income	<u>(8,168)</u>	<u>963</u>

7 Tax on profit

a) Tax recognised in the Income Statement

	2020 £000	2019* £000
Current taxation:		
Current tax on profits for the year	5,374	11,728
Group relief payable	81	-
Adjustments in respect of prior periods	(1,449)	-
	<u>4,006</u>	<u>11,728</u>
Deferred taxation:		
Current year	(2,851)	604
Adjustments in respect of prior periods	(196)	-
Effect of changes in tax rates	64	(64)
Total deferred tax (note 15)	<u>(2,983)</u>	<u>540</u>
Total tax charge reported in the Income Statement	<u>1,023</u>	<u>12,268</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

7 Tax on profit (continued)

b) Tax relating to items charged or credited outside of the Income Statement

	2020	2019*
	£000	£000
Equity items:		
Deferred tax current year charge	642	5,465
Other comprehensive income items:		
Deferred tax current year charge	<u>4,141</u>	<u>4</u>
Tax reported outside of the Income Statement	<u>4,783</u>	<u>5,469</u>

c) Factors affecting total tax charge for the current period

The tax assessed for the year is lower (2019: higher) than the standard effective rate of corporation tax in the UK of 19% (2019: 19%). The current tax charge is made up as follows:

	2020	2019*
	£000	£000
Profit before taxation	<u>8,387</u>	<u>53,494</u>
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	1,594	10,164
Fixed asset differences	342	-
Expenses not deductible	668	351
Tax rate changes	64	(64)
Adjustments to tax charge in respect of previous periods	(1,449)	-
Adjustments to tax charge in respect of previous periods – deferred tax	(196)	-
Trade transfer	-	2,597
Exempt amounts	-	(779)
Rounding	<u>-</u>	<u>(1)</u>
Total tax charge for the year reported in the Income Statement	<u>1,023</u>	<u>12,268</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

8 Intangible assets

	Software costs	Mobilisation costs	Total
	£000	£000	£000
Cost			
At beginning of year	27,776	9,474	37,250
Additions	8,500	-	8,500
Disposals	(301)	-	(301)
At end of year	35,975	9,474	45,449
Accumulated amortisation			
At beginning of year	5,747	2,431	8,178
Amortisation charged to the Income Statement	7,339	7,043	14,382
Disposals	(235)	-	(235)
At end of year	12,851	9,474	22,325
Net book value			
At beginning of year	22,029	7,043	29,071
At end of year	23,124	-	23,124

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

9 Tangible assets

	Leasehold land & buildings	Plant & equipment	Right of use assets	Total
	£000	£000	£000	£000
Cost				
At beginning of year	6,650	14,372	-	21,022
Initial adoption of IFRS16	-	-	68,766	68,766
Additions	2,472	13,783	148,722	164,977
Remeasurement of service period	-	-	178,387	178,387
Impairment	-	-	(831)	(831)
Disposals	-	(3,118)	-	(3,118)
At end of year	9,122	25,037	395,045	429,204
Accumulated depreciation				
At beginning of year	447	2,637	-	3,084
Depreciation charged to Income Statement	663	3,274	80,833	84,770
Disposals	-	(1,087)	-	(1,087)
At end of year	1,110	4,824	80,833	86,767
Net book value				
At beginning of year	6,203	11,735	-	17,938
At end of year	8,012	20,213	314,212	342,437
	Rolling stock	Leasehold land & buildings	Plant & equipment	Total
Right of use assets by asset class	£000	£000	£000	£000
Initial adoption of IFRS16	59,723	8,498	545	68,766
Additions	148,722	-	-	148,722
Remeasurement of service period	170,655	7,301	431	178,387
Impairment	(831)	-	-	(831)
Depreciation charged to Income Statement	(76,814)	(3,777)	(242)	(80,833)
Net book value at end of year	301,455	12,022	734	314,212

Right of use assets comprise rolling stock, offices and other property leases plus depot equipment. The reassessment of the service period from 26 June 2021 to 24 June 2023 led to a remeasurement of the right of use assets and liabilities during the year.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

10 Investments

The Company held the following unlisted investments at 31 March 2020:

	Country of registration	No. of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	5%
Rail Settlement Plan Limited	UK	1	Ordinary (4p)	5%
Rail Staff Travel Limited	UK	1	Ordinary (4p)	5%
NRES Limited	UK	1	Ordinary (£1)	5%
West Yorkshire Ticketing Company	UK	1	Ordinary (£1)	0.73%

The principal activity of the above companies is to provide a range of services to all UK passenger rail operators, each of which has an equal share in the companies. The investments are held at fair value.

11 Inventories

	2020	2019
	£000	£000
Raw materials and consumables	<u>3,136</u>	<u>2,142</u>

There is no material difference between the replacement value of inventories and their cost.

12 Trade and other receivables

	2020	2019
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade receivables:		
Rail Settlement Plan	6,384	34,780
Other trade receivables	<u>13,908</u>	<u>11,333</u>
	20,292	46,113
Amounts owed by group undertakings (note 21)	19,066	41,079
Value Added Tax receivable	-	7,786
Prepayments	35,354	28,673
Accrued income	<u>8,119</u>	<u>12,759</u>
	<u>82,831</u>	<u>136,408</u>

Amounts due from group undertakings are unsecured and repayable on demand.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

13 Trade and other payables

	2020	2019
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade payables	111,449	50,649
Amounts owed to group undertakings (note 21)	180	4,286
Group relief payable to group undertakings (note 21)	81	-
Deferred season ticket income	4,096	5,001
Other taxation and social security	3,311	3,060
Other payables	8,551	6,385
Accruals	72,941	65,345
Deferred income	2,203	30,404
Value Added Tax payable	790	-
Lease liabilities (note 19)	107,460	-
Corporation tax payable	1,867	7,592
	312,929	172,722
<i>Amounts falling due after more than one year:</i>		
Deferred capital grant income	1,123	94
Lease liabilities (note 19)	210,899	-
	212,022	94

Trade payables include a DfT premium adjustment for the year £36,530,000 (2019: £nil).

Deferred income has reduced from the level in the prior year as a result of refunds of advance ticket bookings during the Covid-19 pandemic.

Amounts owed to group undertakings are unsecured and repayable on demand.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

14 Provisions for liabilities

	2020	2019
	£000	£000
Insurance claims	671	237
Deferred Tax (note 15)	<u>7,810</u>	<u>6,009</u>
Provision at end of year	<u>8,481</u>	<u>6,246</u>

a) Insurance claims

	2020	2019
	£000	£000
At start of year	237	-
Charged to the Income Statement	550	254
Released in year	(107)	-
Utilised in year	<u>(9)</u>	<u>(17)</u>
Provision at end of year	<u>671</u>	<u>237</u>

The £671,000 (2019: £237,000) provision relates to customer and employee claims against the Company for compensation for injuries occurring whilst on Company property. Payments are expected to be made in respect of these claims as they are settled, which is typically within 5 years of origination, but the nature of the settlement process makes the timing of these payments uncertain. Estimates of claim values are based on actuarial reviews and prior claims history.

15 Deferred Tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. The amounts are as follows:

Deferred tax (assets)/liabilities:	2020	2019
	£000	£000
Fixed assets	(34)	1,237
Short-term provision	(4)	-
Defined benefit pension	<u>7,848</u>	<u>4,772</u>
Deferred tax provision	<u>7,810</u>	<u>6,009</u>

The movement in deferred tax during the year was:

	2020	2019
	£000	£000
At beginning of year	6,009	-
Charge to Income Statement (note 7a)	(2,983)	540
Charge to equity (note 7b)	642	5,465
Charge to OCI (note 7b)	<u>4,141</u>	<u>4</u>
At end of year	<u>7,810</u>	<u>6,009</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

16 Ordinary share capital

	2020	2019
	£	£
Issued share capital not paid		
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

17 Retained earnings

A reconciliation of the movements in each reserve is shown in the Statement of Changes in Equity on page 30.

The aggregate dividend paid in the financial year was £40,000,000 (2019: £nil). The directors do not recommend a further dividend for the year (2019: £nil).

The capital contribution represents the defined benefit pension asset as at 24 June 2018 £32,146,000 net of associated deferred tax £6,107,000.

18 Capital commitments

	2020	2019
	£000	£000
Contracted	9,974	6,649
Authorised but not contracted	<u>22,410</u>	<u>19,660</u>
Total	<u>32,384</u>	<u>26,309</u>

Capital commitments relate to capital projects that the Company is committed to or has approved but not yet contracted as at 31 March, the cost to be incurred over the remaining capital project timeline.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

19 Lease liabilities

	Rolling Stock	Land & Buildings	Plant & Machinery	Total
	£000	£000	£000	£000
Lease liabilities				
Initial adoption of IFRS 16 1 April 2019	59,723	9,185	546	69,454
New leases	148,722	-	-	148,722
Remeasurement of service period	170,655	7,301	431	178,387
Interest	9,677	359	19	10,055
Repayment of lease liabilities	(85,368)	(2,707)	(185)	(88,260)
Balance at 31 March 2020	303,409	14,139	811	318,359
 Current lease liabilities	100,557	6,548	355	107,460
Non-current lease liabilities	202,852	7,591	456	210,899
Total lease liabilities	303,409	14,139	811	318,359
 Right of use assets				
Initial adoption of IFRS 16 1 April 2019	59,723	8,498	545	68,766
Additions	148,722	-	-	148,722
Remeasurement of service period	170,655	7,301	431	178,387
Impairment	(831)	-	-	(831)
Depreciation for the year	(76,814)	(3,777)	(242)	(80,833)
Balance at 31 March 2020	301,455	12,022	734	314,212
 Lease rentals outside the scope of IFRS 16:				
Leases of low value assets	-	-	61	61
Short term leases	15,864	-	54	15,918
Variable lease components	99,668	-	-	99,668
Track and station access costs	-	56,857	-	56,857
Income from sub-leasing right of use assets	-	(71)	-	(71)
Total	115,532	56,786	115	172,433

Right of use assets comprise rolling stock, offices and other property leases plus depot equipment.

The reassessment of the service period from 26 June 2021 to 24 June 2023 led to a remeasurement of the right of use assets and liabilities during the year.

Included in rolling stock right of use assets are the new Azuma fleet in addition to part of the legacy fleet retained at year end. The Azuma lease continues until 2046 but the term for the Company's service period has been used to measure the liabilities, being the period of use of the right of use assets. Maintenance and variable components of the lease are shown in operating costs. Part of the legacy fleet was handed back during the year. The lease costs for legacy fleet handed back are shown in operating costs under short term leases.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

20 Retirement benefit obligations

Information about the Scheme and the Company's accounting policies

LNER operates a final salary pension scheme and is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme.

The Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The figures reported below therefore represent only the Company's share of the cost, except that the tables reconciling the Section's Defined Benefit Obligations (DBO) and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency with the DBO and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

The Section is open to new members.

Employer contributions for the year ended 31 March 2020 are 11.58%, 10.08% and 9.54% of Section Pay for Category 60 Members, Category 62 Members and Category 64 Members respectively.

The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes. The level of contributions paid by the Company is in line with the latest certified schedule of contributions which was signed in 2013. The 2016 funding valuation of the RPS has not yet been signed.

As a result of the change in the estimated life of the service agreement to 24 June 2023 and a lower level of contributions being paid in line with the 2013 valuation, the surplus has increased from the asset as at 31 March 2019. The impact of the extension of the service agreement is treated through other comprehensive income.

The discounted mean term of the Section's DBO was 23 years at the end of the reporting year.

The Company is exposed to a number of risks relating to the Section, including assumptions not being borne out in practice. It should be noted that due to the nature of the franchise adjustment, the Company is effectively shielded from these risks relating to the Section in the short-term. Some of the most significant risks are as follows, although the list is not exhaustive:

- **Asset volatility:** There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's DBO. The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term. This should be noted in the context of the impact of COVID-19 at 31 March 2020.
- **Change in bond yields:** A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.
- **Inflation risk:** The majority of the Section's DBO is linked to inflation, where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

20 Retirement benefit obligations (continued)

- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.

Membership data:

	2020	2019
Active members	2,996	2,842
Deferred members	3,922	3,855
Pensioner members (including dependants)	1,999	1,955

Asset Data:

	2020	2019
	£000	£000
Growth assets	512,088	542,155
Government bonds	16,822	12,477
Non-Government bonds	39,251	29,113
Other assets	2,373	1,181
Total asset value	570,534	584,926

Summary of assumptions:

	2020	2019
	% pa	% pa
Discount rate	2.2	2.3
Future price inflation (RPI measure)	2.5	3.2
Future price inflation (CPI measure)	1.8	2.2
Increase in pensions (CPI)	1.8	2.2
Pensionable salary increases	2.5	3.2

The assumed average expectation of life in years at age 65 is as follows:

	2020	2019
Male currently aged 65	20.8	20.9
Male currently aged 45	22.2	22.6
Female currently aged 65	22.3	22.4
Female currently aged 45	24.0	24.3

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

20 Retirement benefit obligations (continued)

Defined benefit asset at end of year:

	2020	2019
	£000	£000
Defined benefit obligation at end of year		
Active members	(443,532)	(465,305)
Deferred members	(196,591)	(211,526)
Pensioner members (incl. dependants)	(219,777)	(233,627)
Total defined benefit obligation	(859,900)	(910,458)
Fair value of assets at end of year	570,534	584,926
Adjustment for the members' share of deficit	115,746	130,213
Deficit expected to be recovered after end of current service period	214,924	223,392
Net defined benefit asset at end of the year	41,304	28,073

Reconciliation of net defined benefit asset:

	2020	2019
	£000	£000
Opening net defined benefit asset	28,073	32,146
Employer's share of pension expense	(16,609)	(11,608)
Employers contributions	8,050	7,509
Total gain recognised in OCI	21,790	26
Closing net defined benefit asset	41,304	28,073

Profit & Loss (P&L):

	2020	2019
	£000	£000
Employer's share of service costs	20,026	14,360
Employer's share of administration cost	1,830	924
Past service cost adjustment	-	(3,000)
Settlement	(4,517)	-
Total employer's share of service cost	17,339	12,284
Employer's share of net interest on net defined benefit liability	4,520	3,184
Interest on service period adjustment	(5,250)	(3,860)
Employer's share of pension expense	16,609	11,608

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

20 Retirement benefit obligations (continued)

Other comprehensive income (OCI):

	2020 £000	2019 £000
Loss due to liability experience	630	-
(Gain)/loss due to liability assumption changes	(39,404)	24,223
Return on plan assets less/(greater) than discount rate	3,266	(6,543)
Loss/(gain) on change in service period adjustment	13,718	(17,706)
Total gain recognised in the OCI	(21,790)	(26)

Reconciliation of defined benefit obligation (DBO):

	2020 £000	2019 £000
Opening defined benefit obligation	910,458	846,534
Service cost	33,217	23,769
Interest cost on DBO	21,187	16,084
Section amendment	-	2,700
Loss on DBO – experience	989	-
Gain on DBO – demographic assumptions	(4,722)	(17,178)
(Gain)/loss on DBO – financial assumptions	(60,951)	57,535
Actual benefit payments	(17,727)	(11,286)
Curtailment	-	(7,700)
Settlement	(22,551)	-
Closing defined benefit obligation	859,900	910,458

Reconciliation of value of assets:

	2020 £000	2019 £000
Opening value of schemes' assets	584,926	563,734
Interest income on assets	13,654	10,777
Return on plan assets (less)/greater than discount rate	(5,443)	10,905
Employer contributions	8,050	7,509
Employee contributions	5,146	4,827
Actual benefit payments	(17,727)	(11,286)
Administration costs	(3,050)	(1,540)
Settlement	(15,022)	-
Closing value of schemes' assets	570,534	584,926

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

20 Retirement benefit obligations (continued)

DBO sensitivity to significant actuarial assumptions:

	Sensitivity	Approximate change in DBO £000
Discount rate	-0.25% p.a.	+49,400
	+0.25% p.a.	-45,600
Price inflation*	-0.25% p.a.	-42,800
	+0.25% p.a.	+47,700
Salary increases	-0.25% p.a.	-14,000
	+0.25% p.a.	+14,500
Life expectancy	-1 year	+26,700
	+1 year	-26,700

*Including consistent increases to RPI, salary growth and RPI/CPI related pension increase assumptions, where applicable.

The sensitivity figures are as at 31 March 2020. Note that these scenarios do not represent upper or lower bounds on what could happen. In addition, the sensitivity figures are based on indicative calculations and therefore may not be sufficiently accurate for use in any actuarial calculations whose results are intended for disclosure in the Company's financial statement.

Defined contribution scheme

The cost of contributions to the defined contribution scheme amounts to £453,000 (2019: £342,000).

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

21 Related party disclosures

The Company is a 100% owned subsidiary of DfT OLR Holdings Limited.

The following intercompany transactions occurred during the year;

	Goods/services purchased from within year	Goods/services sold to within year	Payables balance outstanding at 31/03/2020	Receivables balance outstanding at 31/03/2020
	£000	£000	£000	£000
DfT OLR Holdings Limited	(769)	-	(26)	18,874
Train Fleet (2019) Limited	-	-	(74)	-
Northern Trains Limited (from 1 March 2020)	(161)	192	(161)	192

The Company is a member of the DfT OLR Holdings Limited VAT Group. The receivables balance outstanding with DfT OLR Holdings Limited is primarily for VAT receivable. Other intercompany transactions with DfT OLR Holdings Limited include management fees and in addition to the above, interest receivable during the year on group loans was £1,055,000.

Northern Trains Limited became a 100% owned subsidiary of DfT OLR Holdings Limited on 1 March 2020. Intercompany transactions with Northern Trains Limited relate to station access, train maintenance and fuel costs.

The following additional related party transactions occurred during the year;

	Goods/services purchased from within year	Goods/services sold to within year	Payables balance outstanding at 31/03/2020	Receivables balance outstanding at 31/03/2020
	£000	£000	£000	£000
Gemini Applications Limited	(2)	-	-	-
Make It York Limited	(46)	-	-	-
Rail Delivery Group Limited	(330)	-	-	-
Rail Safety & Standards Board Limited	(772)	12	(1)	3
SNC-Lavalin Rail and Transit Limited	(326)	-	-	-

Under the Services Agreement London North Eastern Railway is required to pay a financial premium to the Department for Transport, which for the year to the 31 March 2020, amounted to £94,137,000 (2019: £128,368,000).

Additional costs of £517,000 were incurred during the year relating to the introduction of the Azuma fleet and project funding of £955,000 was received from the Department for Transport for the installation of Passenger Information Screens.

As at the 31 March 2020, the Company owed a payable balance of £36,530,000 relating to the Department for Transport.

Notes to the Financial Statements (continued)

For the year ended 31 March 2020

22 Ultimate parent undertakings

The Company is a wholly owned subsidiary of DfT OLR Holdings Limited, a company registered in England and Wales (number 07141122). The Company's ultimate parent undertaking and controlling party is the Secretary of State for Transport.

The immediate and ultimate parent undertaking and controlling party of DfT OLR Holdings Limited is the Secretary of State for Transport.

The Secretary of State for Transport is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2020. DfT OLR Holdings Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements.

The financial statements of the Secretary of State for Transport can be obtained from Great Minster House, 33 Horseferry Road, London, SW1 P4DR.