

LONDON NORTH EASTERN RAILWAY LIMITED

Financial Statements for the year ended 31 March 2021

Registered number: 04659712

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London North Eastern Railway Limited

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London North Eastern Railway Limited

Corporate information

Company information for the year ended 31 March 2021

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

Company Secretary: James Downey

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

Registered Number: 04659712

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

London North Eastern Railway Limited

Strategic Report

For the year ended 31 March 2021

The Directors present their strategic report for the year ended 31 March 2021.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

London North Eastern Railway Limited (LNER) operates as a publicly owned train company through a services agreement originally awarded on 24 June 2018 by the Secretary of State for Transport. A new contract was agreed in June 2020 for LNER to operate trains and stations across the East Coast Main Line for a minimum of a further three years, possibly extending to five years at the discretion of the Secretary of State for Transport. The three year extension was reflected in the prior year accounts due to the certainty that it would be agreed. LNER is incorporated in and domiciled in the United Kingdom.

Throughout 2020/21, we have navigated our way through the Covid-19 pandemic, supporting Government guidance on travel and responding when restrictions have been introduced or eased. Whilst the advice has varied, there has been some form of a measure in place for much of the last year either asking the public to reduce the number and length of their journeys, or to make essential journeys only. 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 a result, LNER has seen an 82% reduction in customers when compared to 2019/20.

To support those who have travelled with us in maintaining social distancing with a minimum of two metres, and later one metre plus other measures, we have had to greatly reduce the amount of capacity on our trains, with a maximum of only 19% of seats available for sale at the height of the pandemic. To reassure customers and address concerns of overcrowding, we also accelerated our plans to introduce reservation only services, ensuring everyone who travels with us has an automatically socially distanced seat.

Our staff resource was another area constrained, with colleagues in key operational cohorts being asked to self-isolate and therefore become unable to work. Coupled with a lack of customer demand, this led to a decision to reduce our timetable, with initially approximately 40 per cent of train services running, gradually increasing as restrictions eased and demand grew. Since February 2021, we have run approximately 85 per cent of our timetable, despite very limited platform capacity at our main terminus – King's Cross – due to Network Rail engineering work for the East Coast Upgrade. This will ensure we are in a good position to ramp up our services in the summer following the completion of these significant works.

LNER is traditionally a profit-making railway that returns a service agreement premium to the government and yet, because of the impact of the pandemic, we are currently not forecast to return a service agreement premium to government for several years. In the year that ended on 31 March 2021, our revenue was almost £700m lower than in the year 2019/20. This is approximately 85 per cent lower. Looking forward, for the current year, while we expect leisure demand – the majority of our market – to return rapidly we do, unfortunately, expect our revenue will be less than half of the level it was in 2019/20.

To support us in withstanding the drop in revenue, we have received just over £600m services agreement subsidy from the government, as reflected in other operating revenue in the accounts and, due to LNER's successful track record of operating under the ultimate parent of The Secretary of State for Transport, an Emergency Measures Agreement has not been required.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

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 just under £150 million of cost savings since the first lockdown in March 2020.

Our focus is to recover from the pandemic in the short-term and transform our services for customers for the long-term. Whilst the road to recovery will be tough, we are confident that LNER can lead the industry in emerging from the crisis with innovative and agile solutions to help the industry improve. Our aim is to be making a profit and paying a service agreement premium again by 2023/24, enabling us to invest in our route and the wider national railway. While this is based on lower revenues than our previous target, set prior to the pandemic, achieving it will deliver substantial benefits to the country including £65m for reinvesting in rail, as well as boosting the economy, better connecting our communities and helping to achieve the UK's net zero targets.

Encouraging more people to travel long distance by rail, rather than air or road, is crucial to our plans. In our 2020-2025 Business Plan, completed shortly before the first lockdown, we identified a goal of growing from 26 per cent market share for long distance journeys (all modes) to 32 per cent by 2024/25 and raising revenue of £1.17 billion in the year 2024/25. Taking into account the pandemic and the market opportunity before us, we are undertaking a new study to analyse the longer-term market opportunity, which we will use to establish a new modal share target for 2024/25.

In addition to recovering our market, transforming LNER also means creating new capacity for growth. Growth in recent years brought capacity constraints, particularly on our Anglo Scottish route during times of high-leisure demand and, despite the pandemic and if we did not invest, we forecast that we would hit those capacity constraints again by the mid-2020s. We will meet this challenge by introducing extra services in a major timetable change scheduled for May 2022, maximising the benefits of our larger Azuma fleet, with full acceptance of the remaining vehicles during 2020/21, and the East Coast Upgrade, the £1.2 billion programme of Network Rail infrastructure improvements to our route.

LNER's industry-leading operations are based on operational excellence and nailing the basics. We will build on the success we have experienced over the last year with regards to our performance. As of quarter three 2020/21, LNER was the UK's most improved On Time operator, up 36.4 per cent on the same period last year, for the third consecutive quarter. Whilst the reduction in customers travelling by train has undoubtedly driven some of this improvement, it has also come as a result of over 20 performance improvement schemes we have undertaken in partnership with Network Rail as well as joint initiatives with Hitachi, which maintains our fleet.

LNER will also continue to invest in delivering a great digital experience to our customers, accelerating the latest tech and digital developments into rail. We have already made great strides in this area, for example LNER was the first in the industry to introduce at seat ordering, enabling customers to browse the food and drink menu on their mobile device and have their refreshments delivered directly to their seat. An innovative approach runs across the business and will be key to helping us meet and exceed our customer's expectations.

The recently published Williams-Shapps Plan for Rail is a positive step for the industry, and LNER are engaging with DfT and other industry stakeholders to identify how we can support the progression of the commitments in it. It is not expected that there will be a material impact on the financial prospects of LNER in the short or medium term as a result of the plan.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

Our people are at the heart of LNER and have enabled us to weather the last 12 months and give us the confidence and drive that we need to succeed. We are incredibly thankful for their dedication and passion and are committed to working in partnership with our people to deliver a truly exceptional experience for our customers and have a positive impact on our communities and the environment long into the future.

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. Meeting this Vision requires us to attract more customers to make more journeys, more often, including more customers shifting mode to rail, while delivering the services that our communities need. In turn, this will deliver a financially sustainable railway, a strong economy and communities and will protect the environment.

As we enter a post-Covid world, we continue to work hard to ensure the values of employees, customers, communities, industry and national stakeholders guide our direction, as evidenced by our six long-term priorities:

- 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 who have a crucial role in delivering against our business plan and creating value.
- 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

Our people are key to our success, and they help us deliver an excellent service to our existing customers and attract new customers by maintaining our high standards and great experience. Our people drive our purpose 'to put heart into every journey' which generates more journeys and therefore more success, benefiting our communities and the wider UK economy. We know that if we want our colleagues to look after our customers then we must look after them and equally put heart into their career journey with us.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

We promote a culture of equal opportunity, inclusion, diversity and belonging. An environment free from discrimination working in partnership with our colleagues across the business, within our industry and like-minded external partners to continually listen and improve. It is critical that we have the structures and systems in place that help everyone achieve their potential and to ensure we are creating rich opportunities for all.

We are committed to supporting colleagues' holistic health and wellbeing and over the course of the financial year we have continued a strong focus on mental health.

Our in-house team of clinical employees and health and wellbeing specialists have supported our managers to engage and support colleagues on their physical and mental health throughout the pandemic, which has at times seen our customer experience colleagues stood down from their day-to-day duties. We invested in mindfulness tools such as the Headspace app, shared inspiring and helpful stories through internal communication media, and signposted colleagues to further support such as delivering a wealth of learning resources for those looking to use their time productively. Through initiatives such as our volunteer programme LNER Reserves, we both supported the communities we serve, and kept our colleagues learning, engaged and connected.

So that we know when our support is successful and effective, we closely monitor, measure and act on our employee engagement using our bi-annual 'Speak from the Heart' Survey, regular pulse surveys and by measuring employee net advocacy. Results are shared across the business and within teams and action plans are created collaboratively between colleagues and their managers.

We are committed to creating an equal, inclusive and diverse workforce that is representative of the communities in which we serve. To us, an inclusive culture of belonging is where everyone feels able to be their authentic self, always feel comfortable in all interactions, and always have visible opportunities to achieve their full potential. We have worked hard over the year to collate information through trusted disclosure and then analyse the data to be able to truly understand where we may have challenges. We appointed an executive sponsor for each area of diversity demonstrating our commitment to provide visible leadership and change and to drive progress against the initiatives outlined in our Equality, Diversity and Inclusion strategy. In addition, we have signed the Business in the Community Race at Work Charter, a public commitment to improving outcomes of our BAME employees, became a signatory of the rail industry Equality, Diversity and Inclusion (EDI) Charter, achieved the Bronze Inclusive Employers' Standard and became listed for a further year as one of the UK's Top Employers. In March, we voluntarily published our Ethnicity Pay Gap report ahead of any statutory requirement and will be working hard to understand any gap, and the accelerated actions we need to take to close any such gap.

We are fully committed to closing the gender pay gap and work to champion the diversity that already exists within the industry. We feel strongly that our industry has great jobs, careers and professions and are committed to investing time and effort into encouraging more people from all backgrounds to consider a career in rail. As part of International Womens' Day this year, we once again highlighted the contribution of women to the rail industry, and the ambitious target of raising driver applications from females to 40% by 2025.

Our relationship with suppliers and rail industry partners

Partnerships play an important rôle 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.

London North Eastern Railway Limited

Strategic Report (continued)

For the year ended 31 March 2021

Our relationship with Network Rail continues to strengthen 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 invest in a joint performance fund and are delivering more than 20 performance improvement schemes which have significantly improved our punctuality. As well as this, we are taking a partnership approach for our upcoming major timetable change, with joint industry roles to lead both areas.

Throughout 2020/21, we have continued to support our suppliers as they face their own challenges as a result of the pandemic.

With onboard catering withdrawn in line with government restrictions, we were keen not to leave our food and drink suppliers with additional stock that would go to waste. We therefore identified opportunities where products could instead be given to organisations, such as FareShare, a network of charitable food redistributors.

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. Our approach includes the following:

- 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.
- Undertaking periodic research projects with 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.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

- Measuring the impact of the East Coast Upgrade on customer satisfaction, awareness, consideration and understanding of communication plans.
- Drawing upon our 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.

With regards to community stakeholders, from political representatives to local authorities and chambers of commerce, we have continued to run a calendar of regular engagement sessions, offering all our stakeholders the opportunity to engage with our plans and priorities in detail.

We have also introduced a new newsletter, keeping stakeholders abreast of changes to our services and other important updates from across the business. 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 dedicated 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.

Ahead of the introduction of our major timetable change in 2022, we are undertaking a full consultation with all interested parties during the Spring and Summer of 2021, ensuring that everyone has the opportunity to highlight opportunities and share any concerns.

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.

Love the Journey identifies three key areas where we can and will bring about positive change. These are:

- Places with Heart: helping to create thriving communities up and down our line.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

- People with Heart: putting the wellbeing of our people and customers at the heart of our business.
- Business with Heart: doing everything we can to minimise our environmental impact, today and in the future.

These strategic pillars have been defined by consulting our customers, colleagues and considering external initiatives like the RSSB Sustainable Development Principles and United Nations Sustainable Development Goals. They are underpinned by a commitment to getting the basics right. Our focus on Brilliant Basics covers everything from the safety of our colleagues and customers to our approach to modern slavery and the gender pay gap.

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, Education and Employability, Diversity and Inclusion, and Environment and Sustainable Travel.

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 significantly thanks to the completed introduction of our bi-mode Azuma trains.

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 has also introduced corporate social responsibility measures, such as including Social Value measures in tender evaluations, which has to date delivered more than £7.7m, 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:

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

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 of 84% (2020:80%). As a progressive employer we are keen and will be moving away from traditional annual engagement surveying, to dynamic listening and action utilising technology that provides an 'Always-on' listening platform.

This will enable us to monitor more regularly how our people are feeling and drive agile plans for continuous improvement, driving a better employee experience.

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 most of its targets:

	2021 Moving annual average (MAA)	2020 Moving annual average (MAA)
Passenger major injuries per 1 million passenger journeys	0.39	0.44
Workforce lost time accidents per 1,000 employees	0.25	1.12
Employee physical assaults per 1,000 employees	0.38	2.07

This year there were no RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) reportable customer accidents compared to 2 recorded incidents the previous year, the customer risk equates to a FWI (Fatality and Weighted Injury) MAA of 0.041 per million train miles annum. For staff accidents there were 10 RIDDOR reportable employee accidents during the reporting year compared to 26 the previous year, and the risk associated with this equating to FWI to 0.040 per 1000 employees per annum.

During the reporting year there have been 15 LNER employees who have been physically assaulted. Compared to 80 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 (67% of all physical assaults (10 in total)). Most of the reported physical assaults were minor in nature, with only one resulting in any physical injury, but thankfully the employee was well enough to return to work shortly after. As a result of the pandemic and subsequent reduction in passenger interaction all forms of assaults (physical, threats of violence and verbal abuse) have decreased significantly on the previous year. Despite the decrease our approach to dealing with this risk is twofold, 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

LNER has adopted On Time as its primary performance measure. This reflects punctuality (within one minute of schedule arrival time) at all station calling points on a train's journey, rather than just at the final destination.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

As such, it is far more representative of our customers' overall journey experience. At the end of the 2020/21, our On Time punctuality was 79.3%. This compares with 44.8% for the same period last year. This improvement, of almost 35% in 12 months is in large part driven by the effects of the Covid pandemic, a reduction in passenger numbers and as a result also trains, and congestion, on the network.

However, it is also a reflection of the performance of our new fleet of Azuma trains, and the enhanced focus on On Time performance right across LNER, Network Rail and Hitachi made over the last year. Industry data published by the Office of Rail and Road confirms LNER as the UK's most improved Long Distance train operator during 2020/21.

We still also track the Public Performance Measure (PPM), which is widely used throughout the UK rail industry. This is a composite measure of punctuality within ten minutes of scheduled time at the terminating station, and also cancellations. By this measure, our PPM during 2020/21 was 92.4%, again a considerable increase on the 78.2% achieved just 12 months earlier.

Within LNER, we have renewed our focus on operational delivery right across the business, focusing on saving seconds throughout a train's journey to deliver long-term, sustainable improvements in our On Time performance. We have also launched a new brand, highlighting the importance of as well as the linkages between high levels of safety and performance – *'Keeping Safe, Keeping Time'*.

We continue to work closely with our key partners including Network Rail through the East Coast Partnership on a number of performance improvement initiatives, including those being delivered through our pioneering funding mechanism using the 'Schedule 8' regime of the Track Access Contract. A pipeline of similar schemes is in place for delivery during 2021/22.

We are also building a constructive working relationship with Hitachi, to jointly improve reliability and complete a number of modifications to the Azuma trains. In addition, we have worked together to deliver significant improvements in train availability over recent months, ensuring that our high levels of punctuality and reliability are maintained, as well as safeguarding our performance commitments to key stakeholders.

On the 8th May 2021 our Azuma fleet, along with Great Western Railway's equivalent 80x series, were temporarily withdrawn from service by Hitachi following the identification of cracks in the bogie bolster area. The majority of vehicles were safely released back into traffic in the days following. On-going investigations continue as to the cause of the cracks and the technical resolution.

Revenue

Revenue was affected extensively by the COVID 19 restrictions and lockdowns. Period 1 and Period 2 were heavily affected by the stay-at-home message and along with a reduced timetable, revenue dipped to just over £1m in each period. However, as we headed through May into June leisure travel responded quickly to the opening up of domestic staycation travel. We were able to relax the 2m rule on board which allowed close to 50% of seats to be sold across July and August resulting in a comparably "busy" summer albeit at significantly reduced levels from the year before. Revenue peaked in P6 at just under £16m.

The autumn saw revenue slide back after the summer peak with restrictions then followed by another lockdown.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

However, by the end of P13 the Government had set out its plans for re-opening the economy and bookings were already starting to be made in response to that. There were significant numbers of ticket alerts set up for May Day holiday, May Half Term, and the European Championship games across the summer. The evidence for leisure travel reacting quickly in summer 2020 gives confidence that Summer 2021 will be buoyant for leisure travel. Business travel remains subdued as is likely to take longer to return.

The impact of more working from home and the impact of better video technology could mean this segment of the market does not return to its pre-COVID peaks. Plans are being worked up to ensure that leisure travel fills the gap.

Bringing Technology into UK Rail

The financial year saw Digital and Innovation at LNER continue to work on industry-leading retail and digital best in class experiences across the entire passenger journey. Over the year £7.8m of capital was invested in a portfolio of projects which includes launching our industry-leading mobile app, LNER Perks our own loyalty proposition, LNER Assistant our personalised real-time messaging service, plus enhancing our retail offering through capabilities such as eTickets, Smart Save, Automated Delay Repay and Self-Serve Reservations.

Alongside this we've evolved our Rapid Innovation and Data Science offerings enabling us to innovate at pace with a fail fast or scale fast approach with at seat order, disruption management, and onward mobility projects in play. In the coming year, we will be building on this to further digital innovation for the rail industry whilst delivering cost efficiencies, enhancing self-service, adding customer value, and increasing farebox and ancillary revenue.

Customer Advocacy

LNER ended 2020/21 with a Net Advocacy Score (NAS) of 50.7 – 35.7pts above last year's NAS and 8.4pts above target. The trend over the year has fluctuated impacted by the number of customers travelling during the Covid-19 pandemic. At the start of the year, where loadings were at their lowest, NAS peaked at 69.5 before dropping to 43 over the summer periods (although considerably higher than previous year's summer periods - comparable periods in 2019/20 scored on average 9.6) when restrictions eased, and customer numbers increased. The latter half of the year saw a NAS of 50 or above, increasing to 61 in P13 where loadings were at their highest since the summer periods. All but one comparable (non-Covid specific) satisfaction metrics have increased since 2019/20, most notably cleanliness of station toilets which increased by 38pts. Cleanliness and tidiness of carriages has been consistently the highest scoring metric over the year reporting satisfaction scores of 80% or above. It has also increased in importance to customers over the Covid-19 pandemic. Disrupted NAS peaked in 2020/21 at 16, a 35pt increase since 2019/20.

Customer Loyalty

The Nectar partnership was terminated at the end of August 2020. Our focus this year has been the design and build of a new Customer Loyalty Scheme to reward and retain our customers in a way that is aligned to our brand purpose. The new Customer Loyalty Scheme, LNER Perks, provides a reason for more of our customers to have a direct relationship with LNER, and use our new mobile app. It will also provide surprise and delight treats to customers to support the transformation of the rail travel experience. LNER Perks went live on the LNER website and LNER mobile app in late October 2020.

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.

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Strategic Report (continued)

For the year ended 31 March 2021

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 also measures Social Value in all appropriate tender evaluations above £100,000, as well as auditing and monitoring suppliers from a Modern Slavery perspective.

As an organisation that is subject to the Utilities Contract Regulations (UCR), contracts over the relevant threshold are advertised in Find a Tender Portal (FTS) or through a 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. Any suppliers who work on LNER stations will be requested to be Rail industry supplier qualified to the relevant qualification category. 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.

FINANCIAL REVIEW

The Company generated an operating profit for the year of £36.5 million (2020: £16.6 million) after £601.8 million receivable from the Department for Transport as service agreement subsidy (2020: £94.1 million paid to the Department for Transport as service agreement premium), and operating loss before service agreement subsidy was £565.3 million (2020: operating profit before service agreement premium £110.7 million). The switch from operating profit to significant operating loss before service agreement subsidy was due to the impact on turnover of Covid-19, throughout the whole period.

Turnover for the year ended 31 March 2021 was £729.8 million (2020: £838.7 million) which reflects ticket income earned from passenger services net of Delay Repay costs, the service agreement subsidy and 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 £693.3 million (2020: £822.1 million) with a profit before taxation of £1.3 million (2020: £8.4 million). Profit after tax in the year was £0.2 million (2020: £7.4 million).

At 31 March 2021 the Company had net assets of £68.2 million (2020: £52.3 million) including right of use assets £271.6 million (2020: £314.2 million) and lease liabilities £291.1 million (2020: £318.4 million).

Key risks and uncertainties

There are several 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 ongoing business disruption caused by the coronavirus (Covid-19) outbreak.

This is clearly the most significant risk to LNER and to many other businesses both in the UK and across the world. Even with the UK Government's roadmap for easing lockdown measures, the impact of Covid-19 and the associated restrictions are expected to remain an on-going risk with high levels of uncertainty for some time.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

For LNER this has included, and continues to include, impacts such as the imposition of social distancing measures, 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 continues to be subject to decisions made by the UK and Scottish governments and advice by the Public Health organisations.

The LNER budget for 2021/22 assumes that the Government re-opens the UK gradually throughout the Spring with restrictions easing by Summer. The results for the first quarter of the year are positive and we have seen higher levels of both journeys and bookings than expected as restrictions ease and revenue in the first few periods of the new financial year has outperformed our budget.

However, risks remain with the threat of new variants appearing over the rest of the year resulting in a return of tighter restrictions being re-imposed. This has the potential to put a brake on the current acceleration of revenue growth. The budget has assumed a growth in demand across Spring and Summer, alongside a gradual return of the Business market which we are on track to do at present but could easily be knocked off course if more restrictions are put in place.

Business travel remains the weakest part of the LNER revenue line with only a small proportion having returned. We expect 70% of pre-COVID Business demand to return by September 2022 but the remainder is likely to be impacted by more working from home and the onset of more video conferencing and better technology. The LNER Commercial Team are looking at ways of utilising the previously designated Business trains as leisure day trip offerings so that we can begin to plug that revenue gap.

Covid aside, the Company is exposed to several additional external and internal risk factors. The business is reliant on passenger numbers which in turn are impacted by external risk factors such as the continuing changes brought about by 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.

As at the balance sheet date neither the 2016 nor 2019 triennial valuation of the Rail Pension Scheme had been signed off. LNER continues to actively participate in work alongside the Rail Delivery Group, the Trustees of the scheme, the Pension Regulator and the Department for Transport on the 2016 and 2019 valuations. Until such time as more up to date valuations are agreed, the Balance Sheet position will continue to be based on the 2013 valuation, this has increased the value of the asset on the Balance Sheet when compared with the position as at 31 March 2020.

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 function who follow a programme of work 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 to proactively identify emerging risks so that, as a business, we can manage these as effectively and efficiently as possible.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

The threats posed to all organisations through cyber criminality continue to increase, with criminals attempting to exploit human or security vulnerabilities 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. In addition to the various applications and information security awareness programs, LNER has achieved ISO27001 certification to ensure a baseline level of information security is established across the company.

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 2020/21 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 6 LNER Executive Directors, 2 other Non-Executive directors & DOHL Directors 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.

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 10 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, and the on-going operational and commercial implications of the Covid pandemic.

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.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2021

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 Strategic and Corporate Risk Registers at least annually, drawing on recommendations from the Audit Committee. These are supplemented by 'deep dive' sessions focussed on the mitigations in place against specific key risks from the Registers.

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 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 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.

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 response to Covid-19 and the associated business recovery work.

LNER Directors ensure that the business engages closely with a wide range of stakeholders 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 the launching of, or farewell to, LNER's fleet.

London North Eastern Railway Limited
Strategic Report (continued)

For the year ended 31 March 2021

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.

On behalf of the Board



James Downey

Director

21 July 2021

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

London North Eastern Railway Limited

Directors' Report

For the year ended 31 March 2021

The Directors present their report together with the audited financial statements for the year ended 31 March 2021.

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 2021 are set out in the Income Statement on page 32. The results for the year have been discussed in the strategic report on page 4. A dividend of £nil was paid (2020: £40 million). The Directors do not recommend a further dividend for the year (2020: £nil).

Future developments

The future developments for the company are shown in the Strategic Report starting on page 4.

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, as 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 2020/21 Safety & Sustainability Plan set risk-based and targeted objectives which would maintain, and further improve, the safety and environmental performance delivered in 2019/2020. This present year has been challenging due to the unpredictable nature of the Covid-19 pandemic. The direct result of substantially reduced customer volume has been a concurrent reduction in customer and colleague accident actuals and a corresponding reduction in FWI. However, much work has been done throughout the pandemic to engage on Safe Systems of Work (SSOWs) and look again at station and on train design in ways that we have not utilised before, engagement on SSOWs is high and a culture of compliance persists. The business has prepared 'Match Ready' plans to ensure that this culture of compliance is sustainable and that the risks associated with increasing customer volumes are identified early and managed.

Our operational risk has seen a continued reduction 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. It should be noted that although some risk reduction can be attributed to a reduction in timetabled services because of the Covid-19 pandemic the underlying FWI measure has outperformed this impact and continues to show a long-term operational risk reduction year on year.

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 energy consumption and associated greenhouse gas (GHG) emissions for the reporting year is summarised below:

Our reporting boundary includes activities associated with the operation of:

- Stations where LNER are Station Facility Operator, our headquarters in York, 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.

London North Eastern Railway Limited
 Directors' Report (continued)
 For the year ended 31 March 2021

- Fleet in service including Azuma Class 800/801 and IC225

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

	Scope	2019/20 Total ^{2,3}	2020/21 Total ²	2019/20 Carbon tCO ₂ e ⁴	2020/21 Carbon tCO ₂ e ⁴
Energy¹					
Total gas kWh	1	3,915,050	4,541,151	813	944
Total non traction electricity kWh	2	12,860,037	9,943,554	4,064	2,865
Traction electricity (EC4T) kWh ⁵	2	331,512,123	274,627,256	104,751	79,128
Traction diesel (litres)	1	20,973,825	3,277,347	71,117	11,111
Fuel consumed in company road vehicles (diesel litres) ⁶	1	166	133	1	0.42
Mileage claims personal vehicles (miles) ⁶	3	17,940	24,590	6	8
Expense claims fuel for business travel (diesel litres)	1	726	637	2	2
	TOTAL			180,754	94,058
Other environmental parameters					
Total Waste (tonnes) ⁷		1,429	416		
Waste % recycled ⁷		20.2%	26.4%		
Total water (m3)		100,527	84,121		
Intensity ratios					
Carbon emissions per £million turnover				216 tCO ₂ e	127 tCO ₂ e
Carbon emissions per passenger kilometre (traction data only)				32 gCO ₂ e	94 gCO ₂ e

¹100% of all reported energy consumption and their emissions was located within the UK

²Includes estimated data where metered data is missing. Estimate is a pro rata where data ceases part way through a period. Subsequent periods are calculated from FPA utility tracker which summarises invoices (estimates and actuals). Some data is duplicated from the previous year where no data is available.

³Improvements in data collection methodology resulted in update to 2019/20 data set

⁴Carbon has been calculated using all scopes conversion factors

<https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>

⁵Traction data doesn't include 'wash up' data from NR which was not available at the time of reporting

⁶Carbon conversion has been calculated from the primary unit in which the data was collected

⁷Does not include non-managed locations (Leeds, Kings Cross and Edinburgh estimated data from Network Rail)

Energy Efficiency Action

The rail year 2020/21 was the first full year without the diesel High Speed Trains (HST) with the modern electric and bi-mode Azuma replacing the older trains, continuing the previous year's reduction in diesel consumption. Other factors combined to reduce traction energy consumption including, the unfortunate Stonehaven derailment which led to the prolonged cancellation of Edinburgh north bound LNER services (between 12th August to 2nd November) which along with the impacts of Covid significantly reduced diesel consumption by 84.4 per cent from 20,973,825 litres to 3,277,347 litres.

Traction electricity consumption reduced by 17.16% between 2019/20 and 2020/21, this represents 56,884,867 kWh. The primary influencing factor for this reduction relates to Covid and the reduction in services in 2020/21 with the business running as few as 40% of trains during the early days of the pandemic as part of a nationally reduced timetable.

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2021

Work continues to improve the energy efficiency of and improve how we operate our fleet. Projects monitored by our Traction Energy Group include battery replacement of diesel generator units, discontinuous electrification studies and driver and traffic advisory systems to optimise train movement. The business continues to improve the availability and understanding of traction energy data to identify further opportunities to improve.

Non-traction energy represents operation of our stations, office and engineering depot and includes managed and non-managed utilities. With the closure of most tenant units, the associated reduction in customers using facilities and a reduction in staffing levels electricity consumption reduced by 23.26% between 2019/20 and 2020/21 at LNER managed locations while non manage locations consumption (utilities managed by Network Rail) decreased by 22.22%.

Gas consumption increased by 21.24% at LNER managed locations linked to a cold winter and the requirement to have windows open to provide additional Covid ventilation.

Overall total non-traction energy decreased by 13.65% in 2020/21 to 14,484,705 kWh primarily relating to the impacts of Covid on the customers and services provided at LNER stations.

During the year the business completed energy assessments via a third party to identify short, medium and long-term opportunities to reduce energy consumption, improve efficiency and generate renewables. The recommendations within these reports will be utilised to develop improvement plans in 2021. The business continued to progress a solar PV feasibility study at Darlington Station, and agreed a renewable electricity and gas energy supply for LNER managed locations from October 2020 – October 2022.

Data underpins ability to identify opportunities, through internal and external engagement with relevant stakeholders significant progress has been made in improving the accuracy of our datasets, and there is greater understanding of where additional improvement is required.

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

Waste Management

Waste volumes in 2020/21 significantly dropped with the Covid restrictions placed across the country having an impact on customer numbers and station tenants across LNER. Weights dropped across the LNER managed estate by over 1000 tonnes representing a 71 per cent * reduction in normal operational waste. The closure of tenant outlets meant the demand for separate food and glass recycling reduced. These waste streams were paused during the year to balance the cost - benefit. The business attained a recycling rate (including food waste for anaerobic digestion) of 26.48 per cent, an increase of 6.25 per cent year on year.*

Initiatives to reduce waste and improve recycling include:

- After trialling the Recycle Now waste stream icons the business replaced customer facing bin signage across LNER managed locations helping to drive a clear and consistent message.
- Coffee cup recycling was implemented at York. While Covid impacted the number of cups collected the business is continuing to expand this project at other locations during 2021.

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2021

- The business issued reusable cups to customer experience colleagues and removed staff single use cups onboard.
- We developed an interactive environmental E-learning module covering waste segregation for completion by all managers across the business.
- Following on from previous waste characterisation exercises, the business has implemented a trial waste sorting process at Newcastle and looks replicate this process at other key locations along the route.
- Water refill points have been installed at 9 station locations to reduce plastic bottle waste.

*These waste figures apply to LNER directly managed waste and do not include estimated data from Network Rail at Kings Cross, Leeds and Edinburgh Waverley.

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

David Horne

Suzanne Donnelly

John Doughty

Warrick Dent

Karen Lewis

James Downey Appointed 1st July 2020

No Director had any interest in the share capital of the Company during the financial year (2020: nil).

The Company entered 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 equal, 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,

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2021

parental responsibilities, sexual orientation, age (a protected characteristic) or membership or non-membership of a trade union.

The most important consideration for us is our culture and both our business and executive leadership teams take responsibility for culture seriously believing it is the key to business success. In an industry where there is large scale change, further accelerated due the Covid-19 pandemic, we know that culture can determine success or failure specifically if there is a lack of alignment between the culture and business direction. We need to ensure that our values are lived on a daily basis and not just espoused. Fundamentally our business is a people business where safety is the first and most critical consideration in everything we do. With an inhouse team trained, we are now embarking on conducting culture audits to obtain a detailed picture of the ways of working across the business. This analysis helps inform business transformation plans ensuring a greater probability for successful change and a better return on any related investments.

Employee Representation Measurements

Gender: we created employment for 3,215 people and 58% of all those roles are occupied by males and 42% female with a considerable number of female representations occupying management grades at 40.9% overall. 30.6% of our senior management roles are occupied by women and at executive director level 44% of the team are female (which is 50% excluding the Managing Director). We also have just over 9.7% female drivers within our workforce, although this appears a small percentage it is 3% higher than the industry national average. We continue to work hard creating ways to increase the number of female applicants to roles within our business that have traditionally attracted more males. Railways careers are fantastic and we want everyone to have the opportunity to experience the roles we have to offer.

This year we added our name to the Rail Industry Equality, Diversity and Inclusion Charter and the Race at Work Charter, becoming signatories and strong advocates of their work. We hope that these partnerships will provide us with ideas and support to achieve stronger representations as well as provide support to them and their cause. We are proud to have achieved the Bronze Award from Inclusive Employers as we completed their assessment for the first time and we will now plan changes that aim towards the aspirational Silver and Gold targets.

As we prepared and published our statutory Gender Pay Gap report this year, we were keen to ensure that we challenged ourselves in regard to the plan to look for ways to accelerate change and close the gap. Our pay gap sits at the national average and we are keen to be better than average. The Covid-19 pandemic has created challenges to the plan with static recruitment and little movement and so we know we need to think and plan much more creatively this coming year.

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 focused this year on our talent processes ensuring that we increased the opportunities for all. We also voluntarily published our Ethnicity Pay Gap and launched our EDI strategy which continues to build on the stronger foundations that were implemented the previous year. We are passionately committed to building sustainable equality, diversity and inclusion through ownership across the business including a structured career-long education programme starting at induction as new members of the team are welcomed into our business.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2021

Ownership for leading an inclusive culture is driven from the top with an Executive Director sponsoring each diversity strand. These Executive sponsors will be working within a reverse mentoring relationship to build awareness of the genuine barriers that exist, and use their influence to make changes.

Our EDI strategy has clear measures and during the year we worked hard on trusted disclosure so that we could be clear of our baseline. We successfully achieved 97.3% records for ethnicity and will be working even harder this coming year replicating that success in the other data groups e.g. gender identity, sexual orientation and disability. Having a clear base line, great ideas and a real commitment for equality, will help us shape and drive our plan, and ultimately make the changes we know make our business the best place of work for people who genuinely, and passionately want to put heart into every customer's journey.

Our current employee representation for colleagues that identify as BAME is 8.6% against the UK population of 14% (source: ONS). Across our route we are a little underrepresented in Scotland (LNER 2.24% ONS 3.8%), North (LNER: 3.66% ONS 4.7%) and South/London (LNER 25.2% ONS 27.3%). In our Central region (LNER 4.85% ONS 11%) we still have a more significant under representation with little opportunity to recruit new roles due to the pandemic. We will find ways of accelerating our action planning this year to make up for the opportunities lost. Of our overall management population, 6.72% identify as BAME, and whilst there is much work to do, we are pleased that within our business leadership (senior management roles), 14.7% of our colleagues identify as BAME.

A great place to work

A great place to work starts with inclusion and we promote an environment of equal opportunity, 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.

Additionally, to inclusion, a culture where an employer supports and engages colleagues from a holistic health and wellbeing perspective e.g. their physical and mental health, is a key priority for us. Our commitment to this was extended in 2020 with the engagement of a Chief Medical Officer (CMO) to direct the inhouse team of clinicians and take a more proactive role in leading cultural wellbeing. The CMO leads and sets the standards for in-house clinical excellence, wellbeing engagement across industry, and is responsible for engineering and leading the delivery of a world-class holistic health and well-being strategy.

Overall, we care passionately about the employee experience our people have with us. Through listening to our people, we have developed an employee lifecycle roadmap which enables us to understand how people feel from attraction to separation. Using this knowledge, we are transforming the way we listen and interact, moving from a traditional engagement survey to an 'always on' listening platform. The data this platform provides enables us to measure and drive our employee net advocacy.

Our processes regarding the way we develop our people also continues to evolve. We are committed to ensuring that learning opportunities exist for all our employees at every level and is accessible 24-7. The opportunities made available are focused on developing skills, knowledge and behaviours using the most appropriate learning medium for both the subject and the learning style of the employee. The introduction and continued development of a true blended learning approach has enhanced the learning that takes place, and we continue to build and perfect this each year.

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2021

We have also started to understand succession management better and have worked hard over the last two years to create a performance management system which is simple and easy to use, enables great feedback and learning, and provides the data required to plan for succession, evaluation and compensation.

In early 2020, we were accepted onto the Education and Skills Funding Council (ESFA) Register of Approved Training Providers as an Employer Provider. This has allowed us to deliver training aligned to agreed Apprenticeship Standards. This approach not only provides the trainee (learner) with an industry recognised qualification, but it also allows us to access levy funding for learners living/working in England, which keeps base costs down for the business.

Significantly, we commenced 44 Train Driver Apprenticeships in the financial year 2020/21 accessing over £800,000 of Apprenticeship Levy funding (inclusive of EPA costs). Levy drawn down potentially allows us to reinvest in further upskilling of our teams to deliver exceptional services and products to our customers.

Within our Armed Forces Covenant, signed in April 2020, we recognise the value serving personnel, reservists, veterans and military families bring to our business. This includes seeking to support our employees who choose to be members of the Reserve forces and being flexible to accommodate their deployment and training needs.

We are committed to ensuring that our colleagues are provided with every opportunity to access any development or training required to be successful in their role or a role they aspire to. We continue to work hard to ensure that the learning experience and opportunities are the best available in our industry. We work in partnership with the very best training providers and education establishments in both England and Scotland, to access development opportunities for our colleagues. During the fiscal year 2020/21, a total of 34 colleagues had commenced funded learning with third party training providers/education establishments.

Community Engagement

Charitable and political donations

LNER made charitable donations totalling £24,300 during the year ending 31 March 2021 (2020: £23,788) including £24,300 to the Railway Mission Chaplaincy, and not including projects funded through its Customer and Community Investment Fund.

LNER provided £419,424 through the Customer and Community Investment Fund during the year ending 31 March 2021 (2020: £469,000), including:

£329,768 for charitable projects, such as:

- Life in Colour is a mental health and wellbeing project, who have produced a video to be shared in schools, to generate conversations about mental health. It explains the signs and symptoms of poor mental health, offers pointers on how to help yourself or someone else and explores why there's a stigma around it.
- The Key to Skills & Confidence will enable young people facing challenging circumstances to improve their self-confidence, build essential life skills and form a growth mindset.
- HenPower offers older people accessible, creative activities including hen-keeping. It aims to improve older people's lives by reducing social isolation, anxiety and depression, which helps improve wellbeing and positivity. It also builds strong relationships and friendships throughout communities.

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2021

£89,656 for projects to benefit the community that LNER delivered directly, and through its own suppliers. This included fitting water refill units at stations along the route.

There were no political donations made in the year (2020: £nil).

7,175 volunteer hours have been recorded by LNER employees due to the launch of the LNER Reserves volunteering network as part of the business's response to the pandemic.

Despite the cancellation of physical fundraising events, £94,994 has been raised for our charity partner the Campaign Against Living Miserably (CALM) to support their work in preventing suicide. Fundraising has largely been from customers continuing to support the charity through Delay Repay donations, despite the low number of customers travelling. We also launched an option to donate through the new LNER Perks scheme, donations from the sale of lost property and sales from the LNER merchandise shop have all helped raise funds.

Ticket donations were paused due to the pandemic, however tickets to the value of £4,460 were made in raffle prize donations, which helped raise £27,607 for a range of charities. LNER travel passes with an estimated value of £120,000 were gifted to support Community Rail Partnerships and our charity partner CALM.

With the absence of physical Pride events, LNER supported Pride through a digital campaign in partnership with CALM, while rolling over sponsorship of Doncaster and York into 2021. LNER's Community Team has continued to maintain relationships with Community Rail Network and the Community Rail Partnerships through email communication, supporting collaborative activity, attending meetings where possible and holding an annual conference to share updates and opportunities.

LNER have also begun to take part in digital employer engagement sessions through regional partners, helping to promote employability skills amongst young people and raise aspirations to help the prevention of NEET.

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.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2021

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 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. The Government has continually underlined the important role the rail industry has played 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 came into effect in June 2020. 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', in the form of a service agreement subsidy from the DfT which reflects the revenue and costs in the business. The service agreement subsidy is the balancing amount to bring the profit in line with the agreed pre-defined profit margin between both parties.

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

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2021

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.

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 32 to 62 were approved by the Board of Directors on 20 July 2021 and signed on its behalf by



James Downey

Director

21 July 2021

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

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

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 2021 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 2021; 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

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

- reviewing managements forecasts for the period to 31 March 2025 and the key assumptions underlying the forecasts;
- reviewing the service agreement to confirm the committed, contracted support provided by the DfT and the period for which the entity holds the service agreement;
- confirming our understanding of the Railways Act 1993 and the obligation for the entity to operate the passenger rail service; and
- review of the funding deed available to the parent company and the ability for the company to access this funding.

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

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

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

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

Independent auditors' report to the members of London North Eastern Railway Limited (continued)

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of London North Eastern Railway Limited (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, breaches of health and safety regulations under the Health and Safety at Work etc. Act 1974 and non-compliance with tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in determining significant accounting estimates. Audit procedures performed by the engagement team included:

- Review of minutes, claims register and claims provision in respect of actual and potential claims and enquiry of management regarding any unprovided claims;
- Obtaining supporting evidence for the significant assumptions and judgements made by management, particularly in respect of pensions accounting and measurement of lease liabilities;
- Identifying and testing journal entries on a sample basis, in particular those used to recognise revenue;
- Tests of details on a sample basis over operating expenses and tax computations; and
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

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

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

Use of this report

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

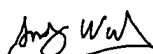
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
21 July 2021

London North Eastern Railway Limited
Income Statement
For the year ended 31 March 2021

		2021	2020
	Note	£000	£000
Revenue			
Passenger income	2	104,796	782,180
Other operating income	2	<u>625,016</u>	<u>56,484</u>
Total Revenue		729,812	838,664
Other operating costs		<u>(693,305)</u>	<u>(822,109)</u>
Operating profit	3	36,507	16,555
Finance income	6	1,001	1,887
Finance costs	6	<u>(36,228)</u>	<u>(10,055)</u>
Profit before taxation		1,280	8,387
Tax on profit	7	<u>(1,080)</u>	<u>(1,023)</u>
Profit for the financial year		<u>200</u>	<u>7,364</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.

London North Eastern Railway Limited
Statement of Other Comprehensive Income
For the year ended 31 March 2021

		2021	2020
	Note	£000	£000
Profit for the financial year		200	7,364
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial gain on retirement benefit obligations	20	19,407	21,790
Deferred tax defined benefit pension		<u>(3,687)</u>	<u>(4,141)</u>
Other comprehensive income for the year, net of tax		<u>15,720</u>	<u>17,649</u>
Total comprehensive income for the year		<u>15,920</u>	<u>25,013</u>

London North Eastern Railway Limited
Statement of Financial Position
As at 31 March 2021

		2021	2020 Restated
	Note	£000	£000
ASSETS			
Non-current assets			
Intangible assets	8	24,640	23,124
Tangible assets	9	308,862	342,437
Investments	10	-	-
Retirement benefit asset (net)	20	49,037	41,304
		<u>382,539</u>	<u>406,865</u>
Current assets			
Inventories	11	1,399	3,136
Trade and other receivables: amounts due within one year	12	38,578	59,040
Cash at bank and in hand		74,565	92,900
		<u>114,542</u>	<u>155,076</u>
Total assets		<u>497,081</u>	<u>561,941</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	(244,945)	(289,138)
Non-current liabilities			
Trade and other payables	13	(173,992)	(212,022)
Provisions for liabilities	14	(9,924)	(8,481)
		<u>(183,916)</u>	<u>(220,503)</u>
Total liabilities		<u>(428,861)</u>	<u>(509,641)</u>
Net Assets		<u>68,220</u>	<u>52,300</u>
EQUITY			
Ordinary share capital	16	-	-
Capital contribution	17	26,039	26,039
Retained earnings	17	42,181	26,261
Total shareholders' funds		<u>68,220</u>	<u>52,300</u>

See note 1 for details of restatement to comparatives.

The accompanying notes form an integral part of this Statement of Financial Position. The financial statements on pages 32 to 62 were approved by the board of Directors on 20 July 2021 and were signed on its behalf by



James Downey, Director

21 July 2021

Registered number: 04659712

London North Eastern Railway Limited
Statement of Changes in Equity
For the year ended 31 March 2021

	Ordinary share capital	Capital contribution	Retained earnings	Total shareholder funds
	£000	£000	£000	£000
As at 1 April 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 year	-	-	25,013	25,013
Dividend paid	-	-	(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
As at 1 April 2020	-	26,039	26,261	52,300
Profit for the year	-	-	200	200
Other comprehensive gain for the year	-	-	15,720	15,720
Total comprehensive income for the year	-	-	15,920	15,920
As at 31 March 2021	-	26,039	42,181	68,220

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

London North Eastern Railway Limited
Notes to the Financial Statements
For the year ended 31 March 2021

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 19. 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 the service agreement continuing until 24 June 2023 was used in the prior year financial statements and during the year to 31 March 2021, based on an agreed direct award from 27 June 2020. This affects the financial statements in respect of pension accounting, intangible assets and reporting for leases under IFRS16.

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 27. 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. The Government has continually underlined the important role the rail industry has played 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.

An extension to the Services Agreement with the DfT came into effect in June 2020. 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', in the form of a service agreement subsidy from the DfT which reflects the revenue and costs in the business. The service agreement subsidy is the balancing amount to bring the profit in line with the agreed pre-defined profit margin between both parties.

Detailed cash forecasts are prepared and shared with the DfT regularly to demonstrate that the Company has sufficient liquidity to meet its liabilities as they fall due. During the year a service agreement subsidy was received from the DfT as a result of the impact on turnover of Covid-19.

London North Eastern Railway Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2021

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) as applicable to companies using FRS 101. 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 international accounting standards in conformity with the requirements of the Companies Act 2006. 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
- IAS 1 40A requirement to present a third balance sheet where the retrospective application of an accounting policy has a material impact on that opening balance sheet.

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. Revenue is only recognised when it is highly probable that a significant reversal will not occur.

London North Eastern Railway Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2021

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 in line with IFRS 15 Revenue from Contracts with Customers.

Other revenue 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 revenue 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 revenue is reported through the income allocation system detail.

Fixed service payments received from the Department for Transport (DfT) are recognised on an accrual basis for the related income for which the receipt is intended to compensate.

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) Service agreement premium/subsidy

Under the Services Agreement, London North Eastern Railway Limited is subject to Fixed Service Payments in the form of service agreement premium paid to, or service agreement subsidy received from, the Department for Transport (DfT). Payments of service agreement premium are recognised in operating costs and receipts of service agreement subsidy in other operating income, 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.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

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 Changes in Equity on page 35 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 improvements	3 - 10 years or lease term
Plant and equipment	3 - 10 years or lease term
Rolling stock	3 - 10 years or lease term

Work in progress assets 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

Work in progress assets are not depreciated until they are available for use and on completion are transferred to the appropriate asset class.

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.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

j) Right of use assets

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

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 the 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.

Corresponding lease liabilities are presented and accounted for as current and non-current liabilities in note 19. The lease liability is initially measured at the present value of future lease payments, discounted using the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Company will use the incremental borrowing rate. 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. The discount rate used is reassessed at the point of remeasurement.

The lease term generally comprises 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.

Variable and fixed track access payments are deemed outside the scope of IFRS 16. Access to the track is not exclusive and LNER cannot restrict access to other operators or freight, hence do not obtain substantially all the economic benefits of use, therefore they do not meet the scope of IFRS 16 and are recognised through the Income Statement as incurred in operating costs.

Station access charges are deemed outside the scope of IFRS 16 as it is deemed that Network Rail controls these assets and significant restrictions are in place on the operator, therefore they do not meet the scope of IFRS 16 and are recognised through the Income Statement as incurred in operating costs.

There is an assessment for lease and non-lease elements of rolling stock leases and the non-lease elements (service and maintenance arrangements) do not meet the scope of IFRS 16 as there is no identifiable asset and are recognised through the Income Statement as incurred in operating costs.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

j) Right of use assets (continued)

The Company has elected to apply the exemption included within IFRS 16 for short term leases (lease terms of less than 12 months) and low value leases (asset values less than £5,000). The lease payments associated with these are recognised as an expense on a straight-line basis over the lease term.

The lease liabilities and right of use assets are impacted by the extension of the Services Agreement – see the critical judgment note on page 44 for further details.

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.

m) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

n) Retirement benefits

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 and 2019 funding valuations of the RPS have not yet been signed.

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.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

n) Retirement benefits (continued)

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.

o) 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 is recognised within the industry as a method of accounting for the RPS and has been consistently applied for this section since adoption of IFRS in 2005.

p) 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.

q) Investments

Unlisted equity investments are carried in the Statement of Financial Position at fair value and any changes in fair value are recognised in the Income Statement. Investments in associates are held at cost. Investments in associates are subject to an impairment review if events or changes in circumstances indicate that their carrying value may not be recoverable.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

r) 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. When a trade receivable is wholly or partially uncollectible, any uncollectible amount is written off against the loss allowance. Subsequent recoveries of amounts previously written off are credited against the loss allowance. Changes in the carrying amount of the loss allowance are recognised in the income statement.

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.

s) 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.

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.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

s) Critical estimates and judgements (continued)

ii. LNER service agreement term assumption - estimate

An assumption of the service agreement continuing until 24 June 2023 was used in the prior year financial statements and during the year to 31 March 2021, based on an agreed direct award from 27 June 2020. This judgement affects these financial statements in respect of pension accounting, intangible assets and reporting for leases under IFRS16.

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.

t) Restatement of 2020 Comparatives

The comparatives have been restated to correct a misclassification of invoices received before the year end but relating to services provided subsequent to the year end. The adjustment has no impact on the profits for the year. The impact of the adjustment is to reduce prepayments by £24,531,000, increase accrued income by £740,000, increase accruals by £1,839,000 and reduce trade payables by £25,630,000.

The correction to the opening Statement of Financial Position at the beginning of the comparative period would have been to reduce prepayments by £6,719,000 and reduce trade payables by £6,719,000.

The Statement of Financial Position and notes 12 and 13 have been restated.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2021

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 revenue as disclosed in the Income Statement.

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

	2021	2020
	£000	£000
Passenger revenue	105,991	803,987
Delay Repay costs	(1,195)	(21,807)
Total passenger revenue	104,796	782,180
DfT service agreement subsidy	601,830	-
Other revenue	23,186	56,484
Total other revenue	625,016	56,484
Total revenue	729,812	838,664

Other revenue comprises of car park income, commercial property income, railway station access income, maintenance income, fuel sales, on board catering income and commissions receivable. During the year a service agreement subsidy was received from the DfT as a result of the impact on turnover of Covid-19.

3 Operating profit

	2021	2020
	£000	£000
Operating profit is stated after charging:		
DfT service agreement premium	-	94,137
Staff Costs (note 5)	159,390	171,131
Depreciation (note 9)	128,379	84,770
Amortisation of intangible assets (note 8)	9,468	14,382
Inventories recognised as expenses	1,433	9,986
Fixed track access	45,702	50,399
Rolling stock costs	192,722	115,532
Lease items excluded from IFRS 16 (note 19)	72	115
Other fixed access charges	6,569	6,458
Variable Access Charges	14,524	28,925
Auditors' remuneration – audit fees	110	74
Auditors' remuneration – non audit services		
- other compliance reporting	7	104

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

4 Directors' remuneration

	2021	2020
	£000	£000
Emoluments in respect of qualifying services to the Company	954	1,206
Compensation for loss of office	-	96
Company pension contributions	82	82
	<u>1,036</u>	<u>1,384</u>

The emoluments excluding pension contributions of the highest paid Director were £248,000 (2020: £336,000).

The pension contributions of the highest paid Director were £18,000 (2020: £19,000).

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

	2021	2020
	Number	Number
Defined benefit scheme	<u>6</u>	<u>6</u>

The highest paid director accrued defined pension benefits of £73,000 (2020: £67,000) and lump sum benefits of £59,000 (2020: £54,000).

There were no contractual payments on termination (2020: £96,000).

The following table shows the annual salary ranges for the executive Directors as at 31 March 2021:

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

Neither of the non-executive Directors (R Harrison and R Gisby) 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

	2021	2020
	£000	£000
Wages and salaries	126,346	136,333
Social security costs	12,273	12,936
Other pension costs	<u>20,771</u>	<u>21,862</u>
Total staff costs	<u>159,390</u>	<u>171,131</u>

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2021

5 Staff costs (continued)

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

	2021	2020
	Number	Number
Managerial and administrative	488	488
Operational	2,516	2,490
	<u>3,004</u>	<u>2,978</u>

6 Finance income and charges

	2021	2020
	£000	£000
Finance income		
Bank interest	19	102
Interest receivable from group undertakings	-	1,055
Corporation tax interest	10	-
Pension interest	972	730
	<u>1,001</u>	<u>1,887</u>
Finance charges		
Corporation tax interest	(45)	-
Interest payable to group undertakings	(34)	-
Interest payable for IFRS 16 lease liabilities	(36,149)	(10,055)
	<u>(36,228)</u>	<u>(10,055)</u>
Net finance charge	<u>(35,227)</u>	<u>(8,168)</u>

7 Tax on profit

a) Tax recognised in the Income Statement

	2021	2020
	£000	£000
Current taxation:		
Current tax on profits for the year	3,249	5,374
Group relief payable	-	81
Adjustments in respect of prior periods	165	(1,449)
	<u>3,414</u>	<u>4,006</u>
Deferred taxation:		
Current year	(2,071)	(2,851)
Adjustments in respect of previous periods	(263)	(196)
Effect of changes in tax rates	-	64
Total deferred tax (note 15)	<u>(2,334)</u>	<u>(2,983)</u>
Total tax charge reported in the Income Statement	<u>1,080</u>	<u>1,023</u>

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

7 Tax on profit (continued)

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

	2021	2020
	£000	£000
Equity items:		
Deferred tax current year charge	-	642
Other comprehensive income items:		
Deferred tax current year charge	<u>3,687</u>	<u>4,141</u>
Tax reported outside of the Income Statement	<u>3,687</u>	<u>4,783</u>

c) Factors affecting total tax charge

The tax assessed for the year is higher (2020: lower) than the standard effective rate of corporation tax in the UK of 19% (2020: 19%). The tax charge is made up as follows:

	2021	2020
	£000	£000
Profit before taxation	<u>1,280</u>	<u>8,387</u>
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	243	1,594
Fixed asset differences	458	342
Expenses not deductible	477	668
Tax rate changes	-	64
Adjustments in respect of previous periods	165	(1,449)
Adjustments in respect of previous periods – deferred tax	<u>(263)</u>	<u>(196)</u>
Total tax charge for the year reported in the Income Statement	<u>1,080</u>	<u>1,023</u>

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. The 2020 UK Budget which took place on 11 March 2020 confirmed the rate of corporation tax will remain at 19% from 1 April 2020, cancelling the enacted rate reduction to 17%. The rate reduction reversal was substantively enacted on 17 March 2020 by way of a special resolution. Accordingly, deferred tax has been provided at 19%, being the rate at which temporary differences are expected to reverse.

The 2021 UK Budget announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. This change was not substantively enacted at the balance sheet date and hence it has not been reflected in the measurement of deferred tax balances at the period end. If the company's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax credit of £12,056,000.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2021

8 Intangible assets

	Software costs	Mobilisation costs	Work in progress	Total
	£000	£000	£000	£000
Cost				
At beginning of year	31,165	9,474	4,810	45,449
Additions	-	-	11,056	11,056
Transfers from WIP	10,887	-	(10,887)	-
Disposals	(517)	-	-	(517)
Write off	-	(9,474)	-	(9,474)
At end of year	41,535	-	4,979	46,514
Accumulated amortisation				
At beginning of year	12,851	9,474	-	22,325
Amortisation charged to the Income Statement	9,468	-	-	9,468
Disposals	(445)	-	-	(445)
Write off	-	(9,474)	-	(9,474)
At end of year	21,874	-	-	21,874
Net book value				
At beginning of year	18,313	-	4,810	23,124
At end of year	19,661	-	4,979	24,640

Amortisation of intangible assets is included within other operating costs in the income statement.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2021

9 Tangible assets

	Leasehold improvements	Plant & equipment	Right of use assets	Work in progress	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	6,501	15,266	395,045	12,392	429,204
Additions	-	-	82,428	15,302	97,730
Transfers from WIP	5,020	11,770	-	(16,790)	-
Remeasurement	-	-	(34)	-	(34)
Impairment	-	-	(2,805)	-	(2,805)
Disposals	(73)	(388)	-	-	(461)
At end of year	11,448	26,648	474,634	10,904	523,634
Accumulated depreciation					
At beginning of year	1,110	4,824	80,833	-	86,767
Depreciation charged to Income Statement	931	5,204	122,244	-	128,379
Disposals	(22)	(352)	-	-	(374)
At end of year	2,019	9,676	203,077	-	214,772
Net book value					
At beginning of year	5,391	10,442	314,212	12,393	342,437
At end of year	9,429	16,972	271,557	10,904	308,862

Right of use assets by asset class	Rolling stock	Leasehold improvements	Plant & equipment	Total
	£000	£000	£000	£000
At beginning of year	301,456	12,022	734	314,212
Additions	82,428	-	-	82,428
Remeasurement	(362)	325	3	(34)
Impairment	(2,805)	-	-	(2,805)
Depreciation charged to Income Statement	(118,052)	(3,946)	(246)	(122,244)
Net book value at end of year	262,665	8,401	491	271,557

Right of use assets comprise rolling stock, offices and other property leases plus depot equipment. During the year additional Azuma trains were delivered and the legacy fleet lease was extended.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

10 Investments

The Company held the following unlisted investments at 31 March 2021:

	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 and any changes in the fair value are recognised in the Income Statement.

11 Inventories

	2021	2020
	£000	£000
Raw materials and consumables	<u>1,399</u>	<u>3,136</u>

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

12 Trade and other receivables

	2021	2020 Restated
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade receivables:		
Rail Settlement Plan	4,141	6,384
Other trade receivables	<u>5,913</u>	<u>13,908</u>
	10,054	20,292
Amounts owed by group undertakings (note 21)	18,264	19,066
Prepayments	6,324	10,822
Accrued income	<u>3,936</u>	<u>8,860</u>
	<u>38,578</u>	<u>50,040</u>

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

Accrued income includes a DfT service agreement subsidy adjustment for the year £1,749,000 (2020: £nil).

See note 1 for details of restatement to comparatives.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

12 Trade and other receivables (continued)

All trade and other receivables at the balance sheet date have been assessed for any expected credit losses. This assessment confirmed any expected credit losses to be immaterial.

13 Trade and other payables

	2021	2020 Restated
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade payables	39,835	85,820
Amounts owed to group undertakings (note 21)	129	180
Group relief payable to group undertakings (note 21)	82	81
Deferred season ticket revenue	458	4,096
Other taxation and social security	3,031	3,311
Other payables	10,856	8,551
Accruals	62,787	74,779
Deferred revenue	3,855	2,203
Value Added Tax payable	488	790
Lease liabilities (note 19)	122,567	107,460
Corporation tax payable	857	1,867
	244,945	289,138
<i>Amounts falling due after more than one year:</i>		
Deferred capital grant income	5,419	1,123
Lease liabilities (note 19)	168,573	210,899
	173,992	212,022

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

Trade payables include a DfT service agreement premium adjustment for the year £nil (2020: £36,530,000).

See note 1 for details of restatement to comparatives.

The prior year deferred revenue balance of £2.2m was all recognised as revenue in the current year.

14 Provisions for liabilities

	2021	2020
	£000	£000
Insurance claims	762	671
Deferred Tax (note 15)	9,162	7,810
Provision at end of year	9,924	8,481

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

14 Provisions for liabilities (continued)

a) Insurance claims

	2021	2020
	£000	£000
At start of year	671	237
Charged to the Income Statement	299	550
Released in year	(90)	(107)
Utilised in year	(118)	(9)
Provision at end of year	762	671

The £762,000 (2020: £671,000) 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:	2021	2020
	£000	£000
Fixed assets	208	(34)
Short-term provision	(363)	(4)
Defined benefit pension	9,317	7,848
Deferred tax provision	9,162	7,810

The movement in deferred tax during the year was:

	2021	2020
	£000	£000
At beginning of year	7,809	6,009
Charge to Income Statement (note 7a)	(2,334)	(2,983)
Charge to equity (note 7b)	-	642
Charge to OCI (note 7b)	3,687	4,141
At end of year	9,162	7,809

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

16 Ordinary share capital

	2021	2020
	£	£
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 35.

The capital contribution represents the defined benefit pension asset as at 24 June 2018, transferred from the previous franchise of East Coast Main Line Company Limited, £32,146,000 net of associated deferred tax £6,107,000 (2020: £6,107,000).

18 Capital commitments

	2021	2020
	£000	£000
Contracted	9,220	9,974
Authorised but not contracted	<u>10,669</u>	<u>22,410</u>
Total	<u>19,889</u>	<u>32,384</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.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

19 Lease liabilities

	Rolling Stock	Land & Buildings	Plant & Machinery	Total
	£000	£000	£000	£000
Lease liabilities				
Balance at 1 April 2020	303,409	14,139	811	318,359
Additions	82,428	-	-	82,428
Remeasurement	(362)	325	3	(34)
Interest	36,015	127	7	36,149
Repayment of lease liabilities	<u>(139,383)</u>	<u>(5,998)</u>	<u>(381)</u>	<u>(145,762)</u>
Balance at 31 March 2021	<u>282,107</u>	<u>8,593</u>	<u>440</u>	<u>291,140</u>
Current lease liabilities	117,482	4,835	250	122,567
Non-current lease liabilities	<u>164,625</u>	<u>3,758</u>	<u>190</u>	<u>168,573</u>
Total lease liabilities	<u>282,107</u>	<u>8,593</u>	<u>440</u>	<u>291,140</u>
Right of use assets				
Balance at 1 April 2020	301,456	12,022	734	314,212
Additions	82,428	-	-	82,428
Remeasurement	(362)	325	3	(34)
Impairment	(2,805)	-	-	(2,805)
Depreciation for the year	<u>(118,052)</u>	<u>(3,946)</u>	<u>(246)</u>	<u>(122,244)</u>
Balance at 31 March 2021	<u>262,665</u>	<u>8,401</u>	<u>491</u>	<u>271,557</u>
Lease amounts recognised in operating costs:				
Leases of low value assets	-	-	72	72

Right of use assets comprise rolling stock, offices and other property leases plus depot equipment. Included in rolling stock right of use assets are the Azuma fleet and part of the legacy fleet retained. 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.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

20 Retirement benefits

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 2021 are 11.70%, 10.32% and 9.90% 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 and 2019 funding valuations of the RPS have not yet been signed.

As a result of a lower level of contributions being paid in line with the 2013 valuation, the surplus has increased from the asset as at 31 March 2021.

The discounted mean term of the Section's DBO was 22 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 service agreement 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 a 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.
- **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.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

20 Retirement benefits (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:	Number	
	2021	2020
Active members	2,956	2,996
Deferred members	3,938	3,922
Pensioner members (including dependants)	2,099	1,999

Asset Data:	2021	2020
	£000	£000
Growth assets	610,138	512,088
Government bonds	20,144	16,822
Non-Government bonds	47,004	39,251
Other assets	3,702	2,373
Total asset value	680,988	570,534

Summary of assumptions:	2021	2020
	% pa	% pa
Discount rate	2.05	2.2
Future price inflation (RPI measure)	3.20	2.5
Future price inflation (CPI measure)	2.90	1.8
Increase in pensions (CPI)	3.20	1.8
Pensionable salary increases	2.90	2.5

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

	2021	2020
Male currently aged 65	20.4	20.8
Male currently aged 45	21.8	22.2
Female currently aged 65	22.7	22.3
Female currently aged 45	24.2	24.0

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

20 Retirement benefits (continued)

Defined benefit asset at end of year:

	2021	2020
	£000	£000
Defined benefit obligation at end of year		
Active members	(539,615)	(443,532)
Deferred members	(240,191)	(196,591)
Pensioner members (incl. dependants)	(268,028)	(219,777)
Total defined benefit obligation	(1,047,834)	(859,900)
Fair value of assets at end of year	680,988	570,534
Adjustment for the members' share of deficit	146,738	115,746
Deficit expected to be recovered after end of current service period	269,145	214,924
Net defined benefit asset at end of the year	49,037	41,304

Reconciliation of net defined benefit asset:

	2021	2020
	£000	£000
Opening net defined benefit asset	41,304	28,073
Employer's share of pension expense	(19,482)	(16,609)
Employers contributions	7,808	8,050
Total gain recognised in OCI	19,407	21,790
Closing net defined benefit asset	49,037	41,304

Profit & Loss (P&L):

	2021	2020
	£000	£000
Employer's share of service costs	18,641	20,026
Employer's share of administration cost	1,758	1,830
Past service cost adjustment	55	-
Settlement	-	(4,517)
Total employer's share of service cost	20,454	17,339
Employer's share of net interest on net defined benefit liability	3,756	4,520
Interest on service period adjustment	(4,728)	(5,250)
Employer's share of pension expense	19,482	16,609

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2021
20 Retirement benefits (continued)

Other comprehensive income (OCI):

	2021 £000	2020 £000
(Gain)/Loss due to liability experience	(34,647)	630
Loss/(gain) due to liability assumption changes	129,207	(39,404)
Return on plan assets (greater)/less than discount rate	(64,474)	3,266
(Gain)/loss on change in service agreement adjustment	(49,493)	13,718
Total gain recognised in the OCI	(19,407)	(21,790)

Reconciliation of defined benefit obligation (DBO):

	2021 £000	2020 £000
Opening defined benefit obligation	859,900	910,458
Service cost	30,903	33,217
Interest cost on DBO	18,705	21,187
Section amendment	92	-
(Gain)/loss on DBO – experience	(57,746)	989
Gain on DBO – demographic assumptions	(11,655)	(4,722)
Loss/(gain) on DBO – financial assumptions	227,001	(60,951)
Actual benefit payments	(19,366)	(17,727)
Settlement	-	(22,551)
Closing defined benefit obligation	1,047,834	859,900

Reconciliation of value of assets:

	2021 £000	2020 £000
Opening value of schemes' assets	570,534	584,926
Interest income on assets	12,445	13,654
Return on plan assets (greater)/less than discount rate	107,457	(5,443)
Employer contributions	7,808	8,050
Employee contributions	5,040	5,146
Actual benefit payments	(19,366)	(17,727)
Administration costs	(2,930)	(3,050)
Settlement	-	(15,022)
Closing value of schemes' assets	680,988	570,534

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

20 Retirement benefits (continued)

DBO sensitivity to significant actuarial assumptions:

	Sensitivity	Approximate change in DBO £000
Discount rate	-0.25% p.a.	+62,600
	+0.25% p.a.	-57,700
Price inflation*	-0.25% p.a.	-56,100
	+0.25% p.a.	+59,300
Salary increases	-0.25% p.a.	-17,200
	+0.25% p.a.	+17,900
Life expectancy	-1 year	-47,200
	+1 year	47,200

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

The sensitivity figures are as at 31 March 2021. 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 £465,000 (2020: £453,000).

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

21 Related party disclosures

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

The following intercompany transactions occurred during the year;

	DfT OLR Holdings Limited	Train Fleet (2020) Limited	SE Trains Limited	Northern Trains Limited (from 1 March 2020)
	£000	£000	£000	£000
2020				
Goods/services sold to and purchased	(769)	-	-	31
Payables balance at 31 March 2020	(26)	(74)	-	(161)
Receivables balance at 31 March 2020	18,874	-	-	192
2021				
Goods/services sold to and purchased	(842)	23	-	1,686
Payables balance at 31 March 2021	(7)	(74)	(1)	(129)
Receivables balance at 31 March 2021	17,866	2	-	396

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 payable during the year on group loans was £34,000 (2020: interest receivable £1,055,000).

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;

	Gemini Applications Limited	Make it York Limited	Rail Delivery Group Limited	Rail Safety & Standards Board Limited	SNC-Lavalin Rail and Transit Limited
	£000	£000	£000	£000	£000
2020					
Goods/services sold to and purchased	(2)	(46)	(330)	(760)	(326)
Payables balance at 31 March 2020	-	-	-	(1)	-
Receivables balance at 31 March 2020	-	-	-	3	-
2021					
Goods/services sold to and purchased	(6)	(33)	(286)	(573)	-
Payables balance at 31 March 2021	-	(33)	-	-	-
Receivables balance at 31 March 2021	-	-	-	1	-

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2021

21 Related party disclosures (continued)

The above additional related parties are companies that LNER and intercompany directors also hold directorships in.

Under the Services Agreement, London North Eastern Railway Limited is subject to Fixed Service Payments in the form of service agreement premium paid to, or service agreement subsidy received from, the Department for Transport which for the year to the 31 March 2021 was a receivable service agreement subsidy of £601,830,000 (2020: service agreement premium payable £94,137,000).

A payment of £36,530,000 was made during the year relating to the 2019/20 service agreement premium. Project funding of £33,000 was received from the Department for Transport for the installation of Passenger Information Screens and £551,000 for a flexible season ticket project.

As at the 31 March 2021, the Company is owed a receivable balance of £1,749,000 relating to the Department for Transport service agreement subsidy (2020: service agreement premium payable £36,530,000).

During the year the net cost of goods and services purchased from and sold to Network Rail was £107,046,000 (2020: £122,248,000). Capital project funding, net of capital costs, of £3,936,000 was received during the year (2020: £455,000). As at the 31 March 2021, balances with Network Rail included receivables £1,009,000 (2020: £14,477,000) and payables £48,359,000 (2020: £39,919,000).

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.

DfT OLR Holdings Limited is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements.

The financial statements of DfT OLR Holdings Limited can be obtained from Albany House, 94-98 Petty France, London, SW1H 9EA.

23 Post balance sheet events

The Williams-Shapps plan for rail was published on 20 May 2021, setting out the government's plan to transform the railway in Great Britain. It details plans to deliver an efficient, financially sustainable railway that meets the needs of passengers by replacing franchising, accelerating innovation and integrating the railways. It is not expected that there will be a material impact on the financial prospects of LNER in the short or medium term as a result.