

# **AGILITY TRAINS EAST LIMITED**

**STRATEGIC REPORT, DIRECTORS' REPORT  
AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

**Registered Number 07930598**



**STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

| <b>CONTENTS</b>                                                            | <b>Page</b> |
|----------------------------------------------------------------------------|-------------|
| Directors and advisers                                                     | 1           |
| Strategic report                                                           | 2 - 5       |
| Directors' report                                                          | 6           |
| Statement of corporate governance                                          | 7           |
| Directors' responsibilities statement                                      | 8           |
| Independent Auditor's report to the members of Agility Trains East Limited | 9 - 10      |
| Income statement                                                           | 11          |
| Statement of comprehensive income                                          | 12          |
| Balance sheet                                                              | 13          |
| Statement of changes in equity                                             | 14          |
| Cash flow statement                                                        | 15          |
| Accounting policies                                                        | 16 - 21     |
| Notes to the financial statements                                          | 22 - 32     |

**DIRECTORS AND ADVISERS**

**Directors**

N A Castillo Borrero

J M Commandeur

Y Fukaya

(resigned on 12 April 2019)

I Hasegawa

(appointed on 12 April 2019)

J A Mee

B J Moorhouse

A S Pearson

**Registered office**

4th Floor

4 Copthall Avenue

London, United Kingdom

EC2R 7DA

**Auditor**

Deloitte LLP

Statutory Auditor

Hill House, 1 Little New Street

London, United Kingdom

EC4A 3TR

**Solicitors**

DLA Piper UK LLP

160 Aldersgate Street

London, United Kingdom

EC1A 4HT

## STRATEGIC REPORT

The Directors submit their Strategic Report on the Company for the year ended 31 March 2020.

## PRINCIPAL ACTIVITY

Agility Trains East Limited is a wholly-owned subsidiary of Agility Trains East (MidCo) Limited. Agility Trains East (MidCo) Limited is a wholly-owned subsidiary of Agility Trains East (Holdings) Limited which is a joint venture between Hitachi Rail Europe Limited and John Laing Investments Limited. All companies are incorporated in the United Kingdom and registered in England and Wales. The Company is a private company limited by shares.

The principal activity of the Company, is the financing, delivery, provision and maintenance of Super Express Trains and train depots under the East Coast Network Intercity Express Programme Master Availability and Reliability Agreement (MARA) entered into with the Secretary of State for Transport on 15 April 2014, and as subsequently amended and restated.

## BUSINESS REVIEW

On 24 January 2020, the Company and the Secretary of State for Transport agreed a variation to the MARA. This variation consolidated train specification amendments to ensure infrastructure compatibility and modify the interior and exterior appearance of the sets. All additional financing for this variation was met by the Manufacturer and the Train Operating Company.

Train testing and commissioning has continued throughout during the year, and 52 trains had been accepted into service, as at 31 March 2020, and were in operation on the East Coast Mainline. 13 trains are to be accepted into service in the next 12 months.

## RESULTS

The profit for the year before taxation amounted to £40.7m (2019: £6.0m loss). After the taxation charge of £7m (2019: £0.7m) the profit for the year was £33.7m (2019: £6.7m loss). Increased capital payments due to train acceptances and increase in scale of operations has resulted in higher revenue and profit being recognised in the year.

Net liabilities increased to £622.3m in 2020 (2019: £526.0m) primarily due to movements in the fair value of the Company's hedging derivatives. The Company continued to invest cash in the Company's service concession asset, financed by the proceeds from additional borrowings.

## FUTURE DEVELOPMENTS AND EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware, at the date of this report, of any likely significant changes in the Company's activities in the next twelve months.

## IMPACT OF THE COVID-19 PANDEMIC

The global Coronavirus (COVID-19) pandemic has had a significant impact on the rail industry in the UK. Since the outbreak of the virus in January 2020, the Company has been in regular discussion with key stakeholders on the potential impact of Coronavirus on operations.

The Company has successfully implemented its business continuity plan with its workforce continuing to work remotely. Despite operational challenges the Company's key supplier, Hitachi Rail Limited, has continued to meet its contractual obligations and fully maintain the fleet. The Directors have had no indication or reason to believe that maintenance services will be significantly impacted in the future.

The uninterrupted provision of maintenance services has enabled the Company to make trains available to its customer in line with contractual requirements, and availability based revenue receipts have continued to be received on time. Loan facility drawdowns have continued as scheduled and are expected to continue as planned. The contractual framework in place throughout the term of the MARA guarantees the receipt of revenue subject to performance obligations being met and therefore the Directors consider there to be no impact on going concern or the Company's ability to meet all of its financial and operational contractual obligations.

## STRATEGIC REPORT (CONTINUED)

### GOING CONCERN

Having made the appropriate enquiries, the Directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors have concluded that the use of the going concern basis in the preparation of the financial statements is applicable.

Further detail is provided in the Company's accounting policies.

### KEY PERFORMANCE INDICATORS

The Company measures its performance during the delivery and operational phases of the project by reference to whether various deliverables (such as train and depot delivery dates, operational performance, and the provision of required document deliverables to key stakeholders) have been, or are forecast to be, achieved in line with the project and finance agreements entered into as part of the East Coast IEP project. Although issues outside of the Company's control have resulted in changes to train delivery forecasts from the original programme, operational performance has been good and the Company has continued to provide all contractual deliverables to the appropriate counterparties in the year.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Company has developed and applied a framework for identifying the risks that apply to each area of the business. The management of these risks is addressed through a series of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management.

Within this risk framework we have identified two principal risks:

(i) a significant risk is the late acceptance of trains into service, resulting in a delay in the commencement of operations and receipt of the associated payments from the Train Operating Company (TOC). To mitigate this risk the Company has passed down delivery obligations under the MARA and Train Availability and Reliability Agreement (TARA) to its train supplier, Hitachi Rail Limited (Hitachi), under the Manufacture and Supply Agreement (MSA) and Train Services Agreement (TSA). The Company monitors all delivery obligations; and

(ii) the Company is also exposed to interest rate risk which is managed through the use of interest rate swaps, details of which are set out in note 12 to the financial statements.

### SECTION 172 (1) STATEMENT

In performing their duties the Directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 as follows:

#### Overview and approach

Agility Trains East Limited is a special purpose company, established specifically to fund and implement the Department for Transport's (DfT's) Intercity Express Programme (IEP), delivering new trains and maintenance facilities into operation across the East Coast Mainline.

Under the contracts the design and manufacture of the trains, and provision of the associated depot facilities, has been sub-contracted in its entirety to Hitachi, with Agility Trains East providing finance and acting as the central contracting party with the DfT, Hitachi and the Train Operating Company (the ultimate user of the trains and their services) as well as the Company's lenders and shareholders providing finance. This means that Agility's business can be operated with a relatively small workforce of secondees from the shareholders and consultants. The Directors consider all these parties to be key stakeholders of the Company.

When making decisions the Directors consider both the detailed operational and financial information provided by management and the opinions of the Company's key stakeholders.

#### The likely consequences of any decision in the long term

Because the Company is a special purpose company it does not expect to enter into new projects or investments. The Company's primary focus and the focus of decisions made by the Directors is to ensure compliance with the commercial and financial obligations arising under the long term MARA.

## STRATEGIC REPORT (CONTINUED)

### SECTION 172 (1) STATEMENT (CONTINUED)

The Directors meet regularly to review detailed information provided by management within its operational report on the Company's compliance with its MARA obligations. The Directors also review and prioritise the key risks faced by the Company, making appropriate decisions to mitigate the probability of the risks occurring and the impact if they do.

The long term value of the Company is determined by the term of the MARA and beyond. The Directors regularly review long term operational and financial forecasts prepared by management and make appropriate decisions to protect the Company's long term value based on the impact of those decisions on these forecasts.

#### **The need to foster the Company's business relationships with suppliers, customers and other industry stakeholders**

The Company maintains open and transparent dialogue with all of its key stakeholders. Under the terms of the MARA and the TARA routine formal engagement is required with the Company's sole customer, the DfT and the Train Operating Company which is the user of the IEP Infrastructure. Similarly under the terms of the MSA and TSA regular meetings are held with the Company's key supplier, Hitachi, which accounts for more than 95% of the Company's supply chain. In practice, in addition to these formalised scheduled discussions, the Company also engages in continual dialogue on an ad-hoc basis with these stakeholders whenever necessary.

The Company maintains key relationships with its Senior Lending Group members, making available all required information under the terms of its financing agreements and meeting on a regular basis to understand the views of the Company's lenders.

#### **The interests of the Company's employees**

The Company does not have any employees of its own; instead its workforce is provided under a combination of management services and consultancy agreements with third parties. The Company's Directors and management are in close ongoing contact with the Company's small workforce, allowing them to understand and act on any concerns and feedback on an ad-hoc basis. The Company strives to provide a motivating and positive work environment.

#### **The desirability of the Company maintaining a reputation for high standards of business conduct**

The Board of Directors acts in a way it considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. To successfully achieve this a number of key policies have been established through the Company's assurance plan. These include health and safety, modern slavery, anti-bribery and corruption, environmental and data protection.

Of these areas the Directors consider that the desirability of the Company maintaining a reputation for high standards of health and safety in the IEP Infrastructure is the single most important in order to ensure the health and safety of the public and the Company's contractors, as well as the continuation of its licence to operate from government and society. The Directors receive detailed health and safety monitoring information from Hitachi, including quantitative and qualitative reporting of incidents and near misses including investigations of causes and proposed remedial actions.

#### **The impact of the Company's operations on the community and the environment**

The Company's assurance plan includes an environment policy that details how it will achieve and maintain the highest standards of environmental performance. As a special purpose company with a small workforce the Company's own operations have only a limited impact on the community and the environment, however where relevant the Directors take the needs of the community and the environment into consideration based on feedback received directly, or reported to management through other stakeholders.

#### **The need to act fairly as between members of the Company**

As set out in greater detail in the Statement of Corporate Governance arrangements on page 7 there is an agreement in place between all members which specifies the matters reserved for joint agreement between them. This agreement seeks to ensure that all members are treated fairly whatever their level of shareholding.

All members of the Agility Trains East (Holdings) Limited Group are currently represented by a director on the Board of Directors. The Board meets regularly, providing the opportunity for the members' appointed Directors to discuss key matters of importance to them and communicate their views to key members of the management team, who also attend Board meetings. Additionally risk and finance sub-committees of the Board also meet regularly to review and discuss relevant matters in greater detail.

**STRATEGIC REPORT (CONTINUED)**

**SECTION 172 (1) STATEMENT (CONTINUED)**

**Key decisions in the year**

The following key decisions were taken by the Board of Directors during the year:

- approval of the variation to amend the train specification and appearance of sets;
- approval of the annual budget and long-term forecast;
- Implementation of the business assurance framework to align the Company's governance, compliance and risk management activities; and
- review and approval of the Company's risk register.

Approved by the Board and signed on its behalf by:



A.G. Pearson  
Director  
26 June 2020

#### **DIRECTORS' REPORT**

The Directors submit their Report and the audited financial statements for the year ended 31 March 2020.

#### **DIVIDENDS**

The Directors do not recommend the payment of a dividend for the year (2019: £nil).

#### **USE OF FINANCIAL INSTRUMENTS**

As disclosed in the Strategic Report, the Company is exposed to interest rate risk which is managed through the use of interest rate swaps. Further information can be found within the Company accounting policies for the year ended 31 March 2020 and note 12 Financial Risk Management.

#### **STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the persons who is a Director at the date of approval of this report confirms that:

- as far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that ought to be taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

#### **DIRECTORS**

The Directors who served throughout the year, and subsequently, except where noted are shown on page 1.

#### **EMPLOYEES**

Details of the number of employees and related costs can be found in note 4 to the financial statements on page 22.

#### **ENERGY AND CARBON REPORTING**

The Company has consumed less than 40,000 kWh of energy during the period and has therefore taken advantage of the exemption available for low energy users not to disclose further energy and carbon information.

#### **FUTURE DEVELOPMENTS AND EVENTS AFTER THE BALANCE SHEET DATE**

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 2 and form part of this report by cross-reference.

#### **AUDITOR**

The Board of Directors is satisfied with the quality of the external audit and Deloitte LLP have indicated their willingness to continue as auditor for another term.

Approved by the Board and signed on its behalf by:



A S Pearson  
Director  
26 June 2020



## STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors remains committed to high standards of corporate governance and believes that these high standards are central to the effective management of the Company and maintaining the confidence of its members.

For the year ended 31 March 2020, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018. The Wates Principles provide a framework for the Board to monitor corporate governance of the Company and see where governance standards can be raised to a higher level across the business. The Board believes the governance framework will ensure effective engagement with stakeholders and provide the right environment to make decisions for the long-term success of the Company. A summary of the six Wates Principles can be seen below; more information can be found in the Strategic and Directors' Reports.

### **Purpose and leadership**

The Board determines the Company's long-term strategy and direction to make available and maintain safe and efficient high speed trains for passenger service. The day-to-day management and implementation of strategies are delegated to the senior management team. It is the Board's responsibility to ensure that the Company's values, strategy and culture are adopted by the senior management team and aligned to ensure the long-term success of the business.

### **Board composition**

The composition of the Board is determined by the Shareholders' Agreement. All of the members of the Agility Trains East (Holdings) Limited Group are currently represented on the Board of Directors. The Board meets regularly, providing Directors with an opportunity to discuss key matters of importance and communicate their views.

### **Directors' responsibilities**

The Board of Directors receives regular information on operations, financial performance, stakeholder engagement and management of key business risks to make effective decisions when necessary. The Board has an appointed chairman whose role is to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained.

### **Opportunity and risk**

The Board aims to identify opportunities while ensuring risks are mitigated. Risk reviews are conducted regularly by the Board's Risk Sub-Committee and senior management to ensure that inherent and emerging safety, operational and financial risks are identified and managed appropriately in a timely manner, updating the risk register for any changes in underlying conditions.

### **Remuneration**

The Company has no employees and is resourced through a combination of management service and consultancy agreements. Directors do not receive any direct remuneration for services provided; instead fees are payable to the shareholder who they represent.

### **Stakeholder relationships and engagement**

The Board understands that engagement with stakeholders and relationship management is essential to enable the Company to meet its immediate and long-term objectives. The section 172 (1) statement on pages 3, 4 and 5 describes some of the engagement that takes place at an operational level with key stakeholders.

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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. They 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AGILITY TRAINS EAST LIMITED**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Agilty Trains East Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the accounting policies; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and IFRSs as adopted by the European Union.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

#### **Other information**

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

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

We have nothing to report in respect of these matters.

#### **Responsibilities of Directors**

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

In preparing the financial statements, the Directors are responsible for assessing the 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AGILITY TRAINS EAST LIMITED (CONTINUED)**

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

In the light of the knowledge and understanding of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

#### **Use of our report**

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



**Andrew Lowes (Senior Statutory Auditor)**

for and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

26 June 2020

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2020**

|                                     | Notes | 2020<br>£'000 | 2019<br>£'000  |
|-------------------------------------|-------|---------------|----------------|
| <b>Continuing operations</b>        |       |               |                |
| Revenue                             | 1     | 819,917       | 295,972        |
| Cost of sales                       |       | (769,338)     | (280,029)      |
| <b>Gross profit</b>                 |       | <u>50,579</u> | <u>15,943</u>  |
| Administrative expenses             |       | (199)         | (196)          |
| <b>Operating profit</b>             | 2     | <u>50,380</u> | <u>15,747</u>  |
| Investment revenues                 | 5     | 108,027       | 63,181         |
| Finance costs                       | 5     | (117,706)     | (84,982)       |
| <b>Profit / (loss) before tax</b>   |       | <u>40,701</u> | <u>(6,054)</u> |
| Tax                                 | 6     | (6,969)       | (660)          |
| <b>Profit / (loss) for the year</b> |       | <u>33,732</u> | <u>(6,714)</u> |
| Attributable to:                    |       |               |                |
| Owners of the Company               |       | <u>33,732</u> | <u>(6,714)</u> |

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

|                                                                | Notes | Hedging<br>reserve<br>£'000 | 2020<br>Retained<br>earnings<br>£'000 | Total<br>£'000 |
|----------------------------------------------------------------|-------|-----------------------------|---------------------------------------|----------------|
| Profit for the year                                            |       | -                           | 33,732                                | 33,732         |
| Items that may be reclassified subsequently to profit or loss: |       |                             |                                       |                |
| Movement in the fair value of hedging derivatives              | 16    | (176,219)                   | -                                     | (176,219)      |
| Deferred tax relating to hedging derivatives                   | 6     | 46,211                      | -                                     | 46,211         |
| Other comprehensive expense                                    |       | (130,008)                   | -                                     | (130,008)      |
| Total comprehensive (expense) / Income for the year            |       | (130,008)                   | 33,732                                | (96,276)       |

FOR THE YEAR ENDED 31 MARCH 2019

|                                                                |    | Hedging<br>reserve<br>£'000 | 2019<br>Retained<br>earnings<br>£'000 | Total<br>£'000 |
|----------------------------------------------------------------|----|-----------------------------|---------------------------------------|----------------|
| Loss for the year                                              |    | -                           | (6,714)                               | (6,714)        |
| Items that may be reclassified subsequently to profit or loss: |    |                             |                                       |                |
| Movement in the fair value of hedging derivatives              | 16 | (49,260)                    | -                                     | (49,260)       |
| Deferred tax relating to hedging derivatives                   | 6  | 8,717                       | -                                     | 8,717          |
| Other comprehensive expense                                    |    | (40,543)                    | -                                     | (40,543)       |
| Total comprehensive expense for the year                       |    | (40,543)                    | (6,714)                               | (47,257)       |

**BALANCE SHEET AS AT 31 MARCH 2020**

|                                                              | Notes | 2020<br>£'000      | 2019<br>£'000      |
|--------------------------------------------------------------|-------|--------------------|--------------------|
| <b>Non-current assets</b>                                    |       |                    |                    |
| Service concession asset                                     | 7     | 1,750,305          | 1,030,487          |
| Trade and other receivables                                  | 8     | 1,536              | 2,218              |
| Deferred tax asset                                           | 14    | 191,917            | 135,406            |
|                                                              |       | <u>1,943,758</u>   | <u>1,168,111</u>   |
| <b>Current assets</b>                                        |       |                    |                    |
| Trade and other receivables                                  | 8     | 65,399             | 69,818             |
| Cash and cash equivalents                                    | 9     | 193,112            | 88,773             |
|                                                              |       | <u>258,511</u>     | <u>158,591</u>     |
| <b>Total assets</b>                                          |       | <u>2,202,269</u>   | <u>1,326,702</u>   |
| <b>Current liabilities</b>                                   |       |                    |                    |
| Trade and other payables                                     | 10    | (75,828)           | (60,481)           |
| Current portion of interest-bearing loans and borrowings     | 9     | (40,620)           | -                  |
|                                                              |       | <u>(116,448)</u>   | <u>(60,481)</u>    |
| <b>Net current assets</b>                                    |       | <u>142,063</u>     | <u>98,110</u>      |
| <b>Non-current liabilities</b>                               |       |                    |                    |
| Non-current portion of interest-bearing loans and borrowings | 9     | (1,845,527)        | (1,122,794)        |
| Deferred tax liability                                       | 14    | (46,978)           | (29,709)           |
| Derivative financial instruments                             | 13    | (815,618)          | (639,744)          |
|                                                              |       | <u>(2,708,123)</u> | <u>(1,792,247)</u> |
| <b>Total liabilities</b>                                     |       | <u>(2,824,571)</u> | <u>(1,852,728)</u> |
| <b>Net liabilities</b>                                       |       | <u>(622,302)</u>   | <u>(526,026)</u>   |
| <b>Equity</b>                                                |       |                    |                    |
| Share capital                                                | 15    | 50                 | 50                 |
| Hedging reserve                                              | 16    | (662,532)          | (532,524)          |
| Retained earnings                                            |       | 40,180             | 6,448              |
| <b>Total equity</b>                                          |       | <u>(622,302)</u>   | <u>(526,026)</u>   |

The financial statements of Agility Trains East Limited, registered number 07930598, were approved by the Board of Directors and authorised for issue on 26 June 2020. They were signed on its behalf by:



A S Pearson  
Director  
26 June 2020

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

|                                                            | Share<br>capital<br>£'000 | Hedging<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
|------------------------------------------------------------|---------------------------|-----------------------------|-------------------------------|--------------------------|
| Balance at 1 April 2019                                    | 50                        | (532,524)                   | 6,448                         | (526,026)                |
| Profit for the year                                        |                           | -                           | 33,732                        | 33,732                   |
| Other comprehensive (expense) / Income for the year        | -                         | (130,008)                   | -                             | (130,008)                |
| <b>Total comprehensive (expense) / Income for the year</b> | <b>-</b>                  | <b>(130,008)</b>            | <b>33,732</b>                 | <b>(96,276)</b>          |
| <b>Balance at 31 March 2020</b>                            | <b>50</b>                 | <b>(662,532)</b>            | <b>40,180</b>                 | <b>(622,302)</b>         |

FOR THE YEAR ENDED 31 MARCH 2019

|                                                 | Share<br>capital<br>£'000 | Hedging<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>equity<br>£'000 |
|-------------------------------------------------|---------------------------|-----------------------------|-------------------------------|--------------------------|
| Balance at 1 April 2018                         | 50                        | (491,981)                   | 13,162                        | (478,769)                |
| Loss for the year                               |                           | -                           | (6,714)                       | (6,714)                  |
| Other comprehensive expense for the year        | -                         | (40,543)                    | -                             | (40,543)                 |
| <b>Total comprehensive expense for the year</b> | <b>-</b>                  | <b>(40,543)</b>             | <b>(6,714)</b>                | <b>(47,257)</b>          |
| <b>Balance at 31 March 2019</b>                 | <b>50</b>                 | <b>(532,524)</b>            | <b>6,448</b>                  | <b>(526,026)</b>         |



**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2020**

|                                                           | Notes | 2020<br>£'000    | 2019<br>£'000    |
|-----------------------------------------------------------|-------|------------------|------------------|
| <b>Net cash inflow from operating activities</b>          | 17    | <b>215,489</b>   | <b>18,887</b>    |
| <b>Investing activities</b>                               |       |                  |                  |
| Interest received                                         |       | 155              | 43               |
| Increase in service concession asset                      |       | (756,608)        | (279,894)        |
| <b>Net cash outflow from investing activities</b>         |       | <b>(756,453)</b> | <b>(279,851)</b> |
| <b>Financing activities</b>                               |       |                  |                  |
| Interest paid                                             |       | (80,679)         | (31,072)         |
| Financing fees                                            |       | (4,445)          | (7,955)          |
| Repayment of borrowings                                   |       | -                | (242,479)        |
| Proceeds from borrowings                                  |       | 730,427          | 545,431          |
| <b>Net cash inflow from financing activities</b>          |       | <b>645,303</b>   | <b>263,925</b>   |
| <b>Net increase in cash and cash equivalents</b>          |       | <b>104,339</b>   | <b>2,961</b>     |
| <b>Cash and cash equivalents at beginning of the year</b> |       | <b>88,773</b>    | <b>85,812</b>    |
| <b>Cash and cash equivalents at the end of the year</b>   | 9     | <b>193,112</b>   | <b>88,773</b>    |

## ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020

### BASIS OF PREPARATION

Agility Trains East Limited is a private limited company incorporated in the United Kingdom and registered in England and Wales under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

The Company has adopted accounting policies that are compliant with International Financial Reporting Standards (IFRSs) in so far as they have been codified and endorsed by European Union member states and, therefore, these accounts comply with Article 4 of the EU IAS regulation.

The Financial Statements have been prepared under the historical cost convention as modified by financial instruments recognised at fair value.

The functional currency of Agility Trains East Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

### ADOPTION OF NEW AND REVISED STANDARDS

At the date of authorisation of these financial statements, the Company adopted one new IFRS, along with a number of amendments to IFRS and Interpretations that are effective (and have been endorsed for use within the EU).

#### Standard/amendment/interpretation

IFRS 16: Leases

Amendments to:

IFRS 9: Payment Features with Negative Compensations;

IAS 28: Long-term Interest in Associates and Joint Ventures;

IFRS 2015 - 2017 Cycle: Amendments to IFRS 3: Business Combinations, IFRS 11: Joint Arrangements, IAS 12: Income Taxes and

IAS 23: Borrowing Costs;

Amendments to IAS 19 Employee Benefit; Plan Amendment, Curtailment and Settlement; and

IFRIC 23 Uncertainty over Income Tax Treatments.

The adoption of IFRS 16, along with the other amendments and interpretations, has not had a material impact on the equity or total comprehensive income of the Company. The Company has reviewed its contractual arrangements and identified no contracts within the scope of the new standard. Certain contracts which have the legal form of a lease are integral parts of the Company's service concession arrangements and hence outside the scope of IFRS 16.

At the date of authorisation of these financial statements, the following standards, amendments and interpretations which have not been applied in these financial statements were in issue and relevant, but not yet effective (and in some cases had not yet been adopted by the EU).

#### Standard/amendment/interpretation

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;

IFRS 17: Insurance Contracts.

Amendments to:

IAS 1 and IAS 8: Definition of Material;

IFRS 3: Definition of Business;

IFRS 10 and IAS 28: Sale or Contribution of Assets between Investor and its Associate or Joint Venture; and

Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards

The Directors do not anticipate that the adoption of the standards will have a material impact on the financial statements of the Company in future reporting periods. The Directors' assessment of the impact of these standards remains ongoing. No additional IFRSs have been adopted in the year.

### Impact of Amendment to IFRS 9: Financial Instruments

In September 2019, the IASB issued 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7'. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Company because it applies hedge accounting to its interest rate exposures. The application of the amendments impacts the Company's accounting in the following way:

## ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020

The Company has floating rate debt, linked to GBP London Inter-Bank Offered Rate (LIBOR), which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

The Company will retain the cumulative gain or loss in the cash flow hedge reserve for its designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Company consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The Company has elected to early adopt the amendments to IFRS 9 for the reporting period ended 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Company to continue hedge accounting during the period of uncertainty.

### SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of consolidation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied throughout the period presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

#### b) Going concern

The Directors have considered a number of factors in determining whether the Company remains a going concern. The key factors and related conclusions are summarised below.

i) The Directors have considered the ability of the TOC to meet future contractual payments, as well as the robustness of the guarantee provided by the Secretary of State for Transport. The Directors have concluded that they do not currently consider this to be a material risk.

ii) The Directors have considered the impact of changes in the performance of key subcontractors, and their ability to continue to meet contractual commitments. The Directors do not currently consider this to be a material risk.

iii) The Company has secured bank facilities totalling £2.2bn to fund the East Coast IEP project, of which £1,938m had been drawn at the year end (2019: £1,207m). The secured facilities are available to be drawn upon request in order to pay for validly incurred project costs, as agreed by the lenders' technical adviser. Total funds forecast to be drawn over the next 12 months amount to £272m. The Directors have considered the continued availability of finance from the Company's lenders and derivative providers. The Directors regularly monitor the creditworthiness of the lenders and derivative providers, and do not currently consider this to be a material risk. The Company derivative instruments were in a net liability position at the year end, the Directors have assessed the Company's ability to meet future swap interest payments and do not consider this to be a material risk.

iv) The Directors have considered the Company's compliance with financial covenant requirements, which are applicable upon the conclusion of the delivery phase of the project, and are forecasting full compliance after this date.

v) The Directors have considered the impact of COVID-19 and assessed it to have no or very limited impact on the long-term going concern of the Company. For additional details see Strategic Report on page 2.

Having considered the above factors and having reviewed the Company's forecasts and projections for 36 months after the balance sheet date, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### c) Accounting for service concession arrangements

The Company is a special purpose company that has been established to perform the East Coast IEP Project and has subsequently entered into agreements with the Secretary of State for Transport, finance providers and sub-contractors.

Under the terms of the MARA, the Secretary of State for Transport (as grantor) controls the services to be provided by the Company over the contract term. Based on the contractual arrangements the Company has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with IFRIC 12 Service Concession Arrangements.

**ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020**

**c) Accounting for service concession arrangements (continued)**

**Service concession asset**

The East Coast Mainline IEP concession will run for a period of 27.5 years from first train acceptance which was achieved on 8 March 2019. Under the terms of the MARA, Agility Trains East Limited has an obligation to make available and provide maintenance for a fleet of 65 Super Express Trains, in return for which it will receive a predetermined availability payment from the Train Operating Company (TOC). The availability payment is subject to amendment in the event of a variation to the MARA. Agility Trains East Limited has contracted Hitachi Rail Limited to provide train maintenance services, including train and depot lifecycle, over the concession period.

Under the terms of the arrangement, where the Company has the right to receive the Set Availability Payments from or at the direction of the grantor (the Secretary of State for Transport), the asset created and/or provided is accounted for as a financial asset. Revenue is recognised by allocating a proportion of the Set Availability Payment to capital revenue, operating revenue and finance income performance obligations. The consideration received is allocated by reference to the relative fair value of the services delivered, where the amounts are separately identifiable. Once the principal assets are determined to be recognised as a financial asset in accordance with IFRIC 12, the financial asset recognition falls under IFRS 9.

The Company has considered both the business model and the solely payments of principal and interest tests, and believes the sole purpose for the Company holding the financial asset is to collect contractual cashflows and that all payments received by it are principal and interest. The Company has therefore accounted for its service concession financial asset using the amortised cost method in accordance with IFRS 9.

The Company does not have material financial assets other than its service concession arrangement. The Company performed a qualitative assessment of the expected credit loss on its financial asset at the year end, which concluded a £nil expected credit loss should be booked at 31 March 2020 (2019: £nil). This assessment was supported by a further quantitative assessment which calculated an immaterial impact to the expected cashflows receivable from the train operating company at 31 March 2020 (2019: immaterial).

**d) Revenue recognition**

Under IFRS 15 the Company recognises revenue from the point the Secretary of State for Transport receives the benefits from the Company's performance obligations, which is over the term of the concession from financial close through to the end of the Usage Guarantee Period (UGP).

During the delivery phase, capital revenue is recognised at cost, plus attributable profit. Costs for this purpose include all works carried out and certified by subcontractors, and include all overheads other than those relating to the general administration of the special purpose company and are directly linked to the delivery of the asset.

During the operational phase, operating revenue is recognised upon the provision of operational maintenance services performance obligations. Costs for this purpose are directly linked to the maintenance of the assets by subcontractors, and include all overheads other than those relating to the general administration of the special purpose company. During this phase amounts received in respect of the service concession are recognised as a reduction against the service concession asset.

**e) Borrowing costs**

Project specific financing costs, including arrangement fees paid to secure loan facilities, commitment fees payable for reserving undrawn facilities and interest costs, are capitalised and held as a prepayment on the balance sheet. Upon utilisation of the facility, financing costs are charged to the income statement over the remaining term of the debt using the effective interest rate method.

Net interest income and expense amounts receivable or payable on interest rate derivatives are credited or charged to the income statement in the period in which they are incurred.

**f) Taxation**

The tax charge or credit represents the sum of current tax and deferred tax.

**Current tax**

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

## ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020

### Taxation (continued)

The carrying amount of any deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

### g) Derivative financial instruments - recognition and measurement

The financial risks faced by the Company in relation to the East Coast IEP contract have been hedged at the inception of the project through fixed interest rate swap agreements.

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently measured at their fair value at each Balance Sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

### h) Derivative financial instruments - hedge designation and effectiveness testing

The Company has designated its interest rate swaps as cash flow hedges. At the inception of the hedge, the Company documents the relationship between the hedging instrument and the hedged interest payments.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Company has both legal right and intention to offset.

The instruments are tested prospectively for effectiveness at each reporting date and if results are effective then hedge accounting is applied and the hedging instruments are treated as cash flow hedges. The instruments are marked to market and the differences are taken directly to other comprehensive income.

Where ineffectiveness is judged to have occurred, either a proportion or the full amount of the ineffectiveness is taken to the Company income statement, included within finance costs or investment income, depending on the level of ineffectiveness experienced.

### Hedge accounting

The Company designates its derivatives as hedges of highly probable forecast transactions (cash flow hedges). Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Company's derivatives is reflected in derivative valuations.

Hedge accounting is discontinued when the hedging instrument expires or is terminated. At that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

The fair values of the Company's derivative instruments used for hedging purposes are disclosed in note 13. Movements in the hedging reserve in shareholders' equity are shown in note 16. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

**ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020**

**h) Derivative financial instruments - hedge designation and effectiveness testing (continued)**

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'Finance costs' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Company expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Where financial instruments no longer meet the requirements of hedge accounting, they will be de-designated as hedging instruments. Cumulative gains or losses recognised within equity will subsequently be amortised through the income statement over the remaining maturity of the hedged item.

**i) Trade and other receivables**

Trade and other receivables are held at amortised cost.

**j) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and short-term deposits with original maturity of six months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short term deposits as defined above, net of bank overdrafts.

**k) Trade and other payables**

Trade and other payables are held at amortised cost.

**l) Bank borrowings**

Interest bearing bank loans and overdrafts are initially recorded at fair value, being the proceeds received, net of direct finance costs, which are subsequently amortised using the effective interest rate method.

**m) Share capital**

Ordinary shares are classified as equity instruments on the basis that they evidence a residual interest in the assets of the Company after deducting all of its liabilities.

## ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2020

**n) Critical accounting judgements and sources of estimation uncertainty**

The critical judgements and estimates that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are set out below.

***Key sources of estimation uncertainty******Revenue recognition***

The Company estimates a capital margin of 6.3% will be earned over the concession period and this has been applied to capital costs incurred during the year (2019: 5.6%) contributing to a gross capital profit of £44m (2019: £15.4m); the increase is due to increased capital payments for trains made during the year.

The Company estimates an operating margin of 10.6% will be earned over the concession period and this has been applied to operating costs incurred during the year (2019: 8.6%) contributing to a gross operating profit of £6.6m (2019: £0.5m), the increase is due to an increase in the scale of operations over the course of the year.

Estimates of the levels of capital margin and operating margin over the concession period are sensitive to variances to the quantum and timing of capital and operating costs incurred as the project progresses. Gross profit margins have increased since commencement of the project delivery phase due to deferrals and savings to actual costs, which reduce project income allocated to interest income on the service concession asset. Project income is re-allocated to capital and operating activities, resulting in a change to gross profit recognised over the remaining term of the service concession, and is necessary to ensure total service concession income is allocated to services provided by the Company under the MARA.

***Critical accounting judgements******Service concession asset***

Under IFRS 9 the Company is required to determine the appropriate classification for the service concession asset. As set out further in note (c) above, the Company has made a judgement that the appropriate classification is amortised cost.

***Fair value measurement***

As required by IFRS 13, the Company incorporates an adjustment for own credit risk into the valuation of its interest rate swap derivatives. In previous years the Company has used an unadjusted credit default swap spread for the listed debt of a comparable company in order to determine the quantum of this adjustment. As at 31 March 2020 the Company has made an adjustment to the credit default swap spread of the comparable company in order to strip out the effect of certain factors which affect the credit risk of the comparable company but do not affect the Company's own credit risk. These factors arose due to market volatility and certain challenges to the comparable company's business as a result of public health responses to the COVID-19 pandemic which were not applicable to the Company's own business. If the unadjusted credit default swap spread had been used, in line with the valuation method applied in previous years, the derivative liabilities would have reduced by c.£41m and other comprehensive loss would have decreased by c.£41m.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

**1 REVENUE**

|                                             | 2020<br>£'000 | 2019<br>£'000 |
|---------------------------------------------|---------------|---------------|
| Revenue in the year is analysed as follows: |               |               |
| Capital revenue                             | 738,912       | 289,052       |
| Operating revenue                           | 81,005        | 6,920         |
| Investment income (note 5)                  | 155           | 43            |
| Service concession asset interest (note 5)  | 107,872       | 63,138        |

All revenue is earned in the United Kingdom and generated from a single business segment.

**2 OPERATING PROFIT**

|                                                                                                          | 2020<br>£'000 | 2019<br>£'000 |
|----------------------------------------------------------------------------------------------------------|---------------|---------------|
| Operating profit is stated after charging:                                                               |               |               |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts                     | (45)          | (42)          |
| Fees payable to the Company's auditor for other services to Agility Trains East (Holdings) Limited Group |               |               |
| - the audit of Agility Trains East (Holdings) Limited Group companies                                    | (3)           | (6)           |
| Total audit fees                                                                                         | (48)          | (48)          |
| - tax compliance services                                                                                | (16)          | (15)          |
| - tax advisory services                                                                                  | (37)          | (52)          |
| Total non-audit fees                                                                                     | (53)          | (67)          |

**3 DIRECTORS' REMUNERATION**

The Directors did not receive any remuneration during the year or the previous year. Fees payable to shareholding companies for the services of the Directors totalled £152k (2019: £148k).

**4 EMPLOYEES**

The Company had no employees during the year (2019: none). Resource is provided to the Company through a combination of management service and consultancy agreements.

**5 INVESTMENT REVENUES AND FINANCE COSTS**

|                                                    | 2020<br>£'000 | 2019<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| Investment revenues                                |               |               |
| Investment income                                  | 155           | 43            |
| Service concession asset interest                  | 107,872       | 63,138        |
| Total investment revenues                          | 108,027       | 63,181        |
| Finance costs                                      |               |               |
| Interest on bank loans, overdrafts and derivatives | (117,706)     | (84,982)      |
| Total finance costs                                | (117,706)     | (84,982)      |



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

6 TAX

Income tax recognised in the Income statement

|                                                | 2020<br>£'000  | 2019<br>£'000 |
|------------------------------------------------|----------------|---------------|
| Current tax                                    | -              | -             |
| Deferred tax (note 14)                         | (6,969)        | (660)         |
| <b>Total tax charge on ordinary activities</b> | <b>(6,969)</b> | <b>(660)</b>  |

The charge for the year can be reconciled to the profit / (loss) in the Income statement as follows:

|                                                                                                                           | 2020<br>£'000  | 2019<br>£'000 |
|---------------------------------------------------------------------------------------------------------------------------|----------------|---------------|
| Profit / (loss) on ordinary activities before taxation                                                                    | 40,701         | (6,054)       |
| (Loss) / profit on ordinary activities multiplied by the applicable rate of corporation tax in the UK of 19% (2019: 19%). | (7,733)        | 1,150         |
| Effects of:                                                                                                               |                |               |
| Income / (expenses) that are not taxable / deductible in determining taxable profit                                       | -              | (1,807)       |
| Adjustments in respect of prior years                                                                                     | 1,006          | (3)           |
| Impact of change in tax rate                                                                                              | (242)          | -             |
| <b>Total tax charge for the year</b>                                                                                      | <b>(6,969)</b> | <b>(660)</b>  |

Income tax recognised in other comprehensive Income

|                                                                                   | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------------------------------------------------------------|---------------|---------------|
| Current tax                                                                       | -             | -             |
| Deferred tax                                                                      |               |               |
| Fair value remeasurement of hedging instruments entered into for cash flow hedges | 46,211        | 8,717         |
| <b>Total income tax recognised in other comprehensive Income</b>                  | <b>46,211</b> | <b>8,717</b>  |

Deferred tax at the balance sheet date has been calculated applying the current main rate of UK corporation tax of 19% (2019: 17%). A deferred tax asset has been recognised in full on trading losses and other timing differences on the basis that the Company is forecasting sufficient taxable profits against which the asset can be utilised.

7 SERVICE CONCESSION ASSET

|                                   |           |
|-----------------------------------|-----------|
|                                   | £'000     |
| At 31 March 2018                  | 706,071   |
| Additions                         | 295,836   |
| Reductions                        | (34,558)  |
| Financial asset interest          | 63,138    |
| At 31 March 2019                  | 1,030,487 |
| Additions                         | 807,169   |
| Reductions                        | (195,223) |
| Service concession asset interest | 107,872   |
| At 31 March 2020                  | 1,750,305 |

  

|                       |           |           |
|-----------------------|-----------|-----------|
|                       | 2020      | 2019      |
|                       | £'000     | £'000     |
| Analysed as:          |           |           |
| Less than one year    | -         | -         |
| Greater than one year | 1,750,305 | 1,030,487 |
| At 31 March           | 1,750,305 | 1,030,487 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

8 TRADE AND OTHER RECEIVABLES

|                                                                                         | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------------------------------------------------------------------|---------------|---------------|
| <b>Current assets</b>                                                                   |               |               |
| Trade receivables                                                                       | 28,579        | 11,095        |
| VAT recoverable                                                                         | 20,357        | 46,060        |
| Prepayments                                                                             | 11,806        | 9,635         |
| Accrued income                                                                          | 4,657         | 3,028         |
|                                                                                         | <u>65,399</u> | <u>69,818</u> |
| As at 1 April 2018, trade receivables from contracts with customers amounted to £1.01m. |               |               |
| <b>Non-current assets</b>                                                               |               |               |
| Prepayments                                                                             | 1,536         | 2,218         |
|                                                                                         | <u>1,536</u>  | <u>2,218</u>  |

9 CASH, CASH EQUIVALENTS AND BORROWINGS

|                                                           | 2020              |                       |                    |
|-----------------------------------------------------------|-------------------|-----------------------|--------------------|
|                                                           | Recourse<br>£'000 | Non-recourse<br>£'000 | Total<br>£'000     |
| Cash at bank and in hand                                  | 193,112           | -                     | 193,112            |
| Bank and other loans falling due within one year          | -                 | (40,620)              | (40,620)           |
| Bank and other loans falling due after more than one year | -                 | (1,845,527)           | (1,845,527)        |
|                                                           | <u>193,112</u>    | <u>(1,886,147)</u>    | <u>(1,693,035)</u> |
|                                                           |                   |                       |                    |
|                                                           | 2019              |                       |                    |
|                                                           | Recourse<br>£'000 | Non-recourse<br>£'000 | Total<br>£'000     |
| Cash at bank and in hand                                  | 88,773            | -                     | 88,773             |
| Bank and other loans falling due within one year          | -                 | -                     | -                  |
| Bank and other loans falling due after more than one year | -                 | (1,122,794)           | (1,122,794)        |
|                                                           | <u>88,773</u>     | <u>(1,122,794)</u>    | <u>(1,034,021)</u> |

Non-recourse debt is secured against Company assets.

10 TRADE AND OTHER PAYABLES

|                            | 2020<br>£'000   | 2019<br>£'000   |
|----------------------------|-----------------|-----------------|
| <b>Current liabilities</b> |                 |                 |
| Trade payables             | (19,854)        | (34,997)        |
| Accruals                   | (26,188)        | (7,465)         |
| Deferred income            | (29,786)        | (18,019)        |
|                            | <u>(75,828)</u> | <u>(60,481)</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

11 FINANCIAL INSTRUMENTS

a) Financial instruments by category

|                                             | Other Financial<br>assets at<br>amortised cost<br>£'000 | Service<br>concession asset<br>at amortised cost<br>£'000 | Financial<br>liabilities at<br>amortised cost<br>£'000 | Derivatives<br>at fair value<br>£'000 | 31 March 2020<br>Total<br>£'000 |
|---------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------|---------------------------------------|---------------------------------|
| Fair value measurement method<br>2020       | n/a                                                     | n/a                                                       | n/a                                                    | Level 2                               |                                 |
| <b>Non-current assets</b>                   |                                                         |                                                           |                                                        |                                       |                                 |
| Service concession assets                   | -                                                       | 1,750,305                                                 | -                                                      | -                                     | 1,750,305                       |
| Trade and other receivables                 | -                                                       | -                                                         | -                                                      | -                                     | -                               |
| <b>Current assets</b>                       |                                                         |                                                           |                                                        |                                       |                                 |
| Trade and other receivables                 | 28,579                                                  | -                                                         | -                                                      | -                                     | 28,579                          |
| Cash and cash equivalents                   | 193,112                                                 | -                                                         | -                                                      | -                                     | 193,112                         |
| <b>Total financial assets</b>               | <b>221,691</b>                                          | <b>1,750,305</b>                                          | <b>-</b>                                               | <b>-</b>                              | <b>1,971,996</b>                |
| <b>Current liabilities</b>                  |                                                         |                                                           |                                                        |                                       |                                 |
| Trade and other payables                    | -                                                       | -                                                         | (75,828)                                               | -                                     | (75,828)                        |
| Interest-bearing loans and borrowings       | -                                                       | -                                                         | (40,620)                                               | -                                     | (40,620)                        |
| <b>Non-current liabilities</b>              |                                                         |                                                           |                                                        |                                       |                                 |
| Interest-bearing loans and borrowings       | -                                                       | -                                                         | (1,845,527)                                            | -                                     | (1,845,527)                     |
| Derivative financial instruments            | -                                                       | -                                                         | -                                                      | (815,618)                             | (815,618)                       |
| <b>Total financial liabilities</b>          | <b>-</b>                                                | <b>-</b>                                                  | <b>(1,961,975)</b>                                     | <b>(815,618)</b>                      | <b>(2,777,593)</b>              |
| <b>Net financial assets / (liabilities)</b> | <b>221,691</b>                                          | <b>1,750,305</b>                                          | <b>(1,961,975)</b>                                     | <b>(815,618)</b>                      | <b>(805,597)</b>                |

  

|                                             | Other Financial<br>assets at<br>amortised cost<br>£'000 | Service<br>concession asset<br>at amortised cost<br>£'000 | Financial<br>liabilities at<br>amortised cost<br>£'000 | Derivatives<br>at fair value<br>£'000 | 31 March 2019<br>Total<br>£'000 |
|---------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------|---------------------------------------|---------------------------------|
| Fair value measurement method<br>2019       | n/a                                                     | n/a                                                       | n/a                                                    | Level 2                               |                                 |
| <b>Non-current assets</b>                   |                                                         |                                                           |                                                        |                                       |                                 |
| Service concession assets                   | -                                                       | 1,030,487                                                 | -                                                      | -                                     | 1,030,487                       |
| <b>Current assets</b>                       |                                                         |                                                           |                                                        |                                       |                                 |
| Trade and other receivables                 | 11,095                                                  | -                                                         | -                                                      | -                                     | 11,095                          |
| Cash and cash equivalents                   | 88,773                                                  | -                                                         | -                                                      | -                                     | 88,773                          |
| <b>Total financial assets</b>               | <b>99,868</b>                                           | <b>1,030,487</b>                                          | <b>-</b>                                               | <b>-</b>                              | <b>1,130,355</b>                |
| <b>Current liabilities</b>                  |                                                         |                                                           |                                                        |                                       |                                 |
| Trade and other payables                    | -                                                       | -                                                         | (60,481)                                               | -                                     | (60,481)                        |
| Interest bearing loans and borrowings       | -                                                       | -                                                         | -                                                      | -                                     | -                               |
| <b>Non-current liabilities</b>              |                                                         |                                                           |                                                        |                                       |                                 |
| Interest bearing loans and borrowings       | -                                                       | -                                                         | (1,122,794)                                            | -                                     | (1,122,794)                     |
| Derivative financial instruments            | -                                                       | -                                                         | -                                                      | (639,744)                             | (639,744)                       |
| <b>Total financial liabilities</b>          | <b>-</b>                                                | <b>-</b>                                                  | <b>(1,183,275)</b>                                     | <b>(639,744)</b>                      | <b>(1,823,019)</b>              |
| <b>Net financial assets / (liabilities)</b> | <b>99,868</b>                                           | <b>1,030,487</b>                                          | <b>(1,183,275)</b>                                     | <b>(639,744)</b>                      | <b>(692,664)</b>                |

Derivatives used in hedging relationships have been measured applying Level 2 of the fair value hierarchy. The fair value equals the net present value of future derivative cashflows, net of a credit value spread, and is determined by applying a forecast interest rate curve to committed nominal values as per the derivative agreements. Financial assets together with all financial liabilities (other than derivatives) are carried at amortised cost.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

## 11 FINANCIAL INSTRUMENTS (CONTINUED)

## a) Financial instruments by category (continued)

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between the hierarchies in the current year or prior year.

## b) Interest rate profile of financial liabilities

The Company's financial liabilities at 31 March 2020 were £2,778m (2019: £1,823m), all of which were non-recourse. There were no recourse borrowings as at 31 March 2020 or at 31 March 2019.

|                              | 31 March 2020          |                     |                  | Total<br>£'000     |
|------------------------------|------------------------|---------------------|------------------|--------------------|
|                              | Interest bearing       |                     | Non-interest     |                    |
|                              | Floating rate<br>£'000 | Fixed rate<br>£'000 | bearing<br>£'000 |                    |
| <b>Non-recourse</b>          |                        |                     |                  |                    |
| Borrowings < 1 year          | (40,620)               | -                   | -                | (40,620)           |
| Borrowings > 1 year          | (1,570,868)            | (274,659)           | -                | (1,845,527)        |
| Total derivative liabilities | -                      | (815,618)           | -                | (815,618)          |
| Trade and other payables     | -                      | -                   | (75,828)         | (75,828)           |
| <b>Total</b>                 | <b>(1,611,488)</b>     | <b>(1,090,277)</b>  | <b>(75,828)</b>  | <b>(2,777,593)</b> |

  

|                              | 31 March 2019          |                     |                  | Total<br>£'000     |
|------------------------------|------------------------|---------------------|------------------|--------------------|
|                              | Interest bearing       |                     | Non-interest     |                    |
|                              | Floating rate<br>£'000 | Fixed rate<br>£'000 | bearing<br>£'000 |                    |
| <b>Non-recourse</b>          |                        |                     |                  |                    |
| Borrowings < 1 year          | -                      | -                   | -                | -                  |
| Borrowings > 1 year          | (881,813)              | (240,981)           | -                | (1,122,794)        |
| Total derivative liabilities | -                      | (639,744)           | -                | (639,744)          |
| Trade and other payables     | -                      | -                   | (60,481)         | (60,481)           |
| <b>Total</b>                 | <b>(881,813)</b>       | <b>(880,725)</b>    | <b>(60,481)</b>  | <b>(1,823,019)</b> |

Bank and other loans falling due after more than one year includes £115m (2019: £116m) of unamortised financing costs that have been netted off against the carrying value of the debt. Finance costs are released to the income statement using the effective interest rate method over the term of the debt.

## 12 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (interest rate risk and inflation risk), credit risk, price risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial results. The Company uses derivative financial instruments to hedge interest rate exposures. As at 31 March 2020, 100% of the derivative financial instruments entered into by the Company were designated as hedging instruments and accounted for using hedge accounting (2019: 100%).

The various types of financial risk are managed as set out below.

## Market risk - Interest rate risk

The Company's interest rate risk arises due to fluctuations in interest rates which expose the Company to variability in interest payment cash flows on variable rate borrowings and impact the value of returns from floating rate deposits.

The Company hedges its interest rate risk on the variable rate bank financing it has secured by entering into interest rate swap agreements. The Company assesses the economic relationship between a hedge item and hedging instrument using the hypothetical derivative method in its determination of hedge effectiveness. All hedging ratios are currently around 1:1. Credit risk is the main source of ineffectiveness identified in its measure of hedge effectiveness; however, this is not considered to be a significant risk. The late designation of the swaps with a non-zero fair value on day 1 is another source of ineffectiveness. There was no ineffectiveness recognised on the interest rate swaps during the year (2019: £nil).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

## 12 FINANCIAL RISK MANAGEMENT (CONTINUED)

The exposure of the Company's financial assets to interest rate risk is as follows.

|                                                       | 31 March 2020          |                     |                      | Total<br>£'000   |
|-------------------------------------------------------|------------------------|---------------------|----------------------|------------------|
|                                                       | Interest bearing       |                     | Non-interest bearing |                  |
|                                                       | Floating rate<br>£'000 | Fixed rate<br>£'000 | £'000                |                  |
| Service concession assets                             | -                      | 1,750,305           | -                    | 1,750,305        |
| Trade and other receivables                           | -                      | -                   | 28,579               | 28,579           |
| Cash and cash equivalents                             | 193,112                | -                   | -                    | 193,112          |
| <b>Financial asset exposure to interest rate risk</b> | <b>193,112</b>         | <b>1,750,305</b>    | <b>28,579</b>        | <b>1,971,996</b> |

  

|                                                       | 31 March 2019          |                     |                      | Total<br>£'000   |
|-------------------------------------------------------|------------------------|---------------------|----------------------|------------------|
|                                                       | Interest bearing       |                     | Non-interest bearing |                  |
|                                                       | Floating rate<br>£'000 | Fixed rate<br>£'000 | £'000                |                  |
| Service concession assets                             | -                      | 1,030,487           | -                    | 1,030,487        |
| Trade and other receivables                           | -                      | -                   | 11,095               | 11,095           |
| Cash and cash equivalents                             | 88,773                 | -                   | -                    | 88,773           |
| <b>Financial asset exposure to interest rate risk</b> | <b>88,773</b>          | <b>1,030,487</b>    | <b>11,095</b>        | <b>1,130,355</b> |

While the Company hedges interest rate cashflow risk on variable rate bank financing, movements in LIBOR impact the timing of interest charges to the income statement under the effective interest rate method. As at 31 March 2020 a 50bps increase in future LIBOR assumptions would result in an increased interest charge of £5.9m for the current year (2019: £3.1m), and a corresponding 50bps decrease would result in a £5.9m interest charge reduction (2019: £3.1m).

The above sensitivity analysis was performed by flexing effective interest rate calculations. A flat 50bps increase and a flat 50bps decrease was added to the forecast LIBOR rates as at the year end, all other factors remaining constant.

The interest rate on the service concession asset is 8% (2019: 8%) and the remaining amortisation period of the asset is 26 years.

The exposure of the Company's financial liabilities to interest rate risk is set below.

|                                                           | 31 March 2020          |                     |                      | Total<br>£'000     |
|-----------------------------------------------------------|------------------------|---------------------|----------------------|--------------------|
|                                                           | Interest bearing       |                     | Non-interest bearing |                    |
|                                                           | Floating rate<br>£'000 | Fixed rate<br>£'000 | £'000                |                    |
| Interest bearing loans and borrowings                     | (1,611,488)            | (274,659)           | -                    | (1,886,147)        |
| Fair value of derivatives                                 | -                      | (815,618)           | -                    | (815,618)          |
| Trade and other payables                                  | -                      | -                   | (75,828)             | (75,828)           |
| <b>Financial liability exposure to interest rate risk</b> | <b>(1,611,488)</b>     | <b>(1,090,277)</b>  | <b>(75,828)</b>      | <b>(2,777,593)</b> |

  

|                                                           | 31 March 2019          |                     |                      | Total<br>£'000     |
|-----------------------------------------------------------|------------------------|---------------------|----------------------|--------------------|
|                                                           | Interest bearing       |                     | Non-interest bearing |                    |
|                                                           | Floating rate<br>£'000 | Fixed rate<br>£'000 | £'000                |                    |
| Interest bearing loans and borrowings                     | (881,813)              | (240,981)           | -                    | (1,122,794)        |
| Fair value of derivatives                                 | -                      | (639,744)           | -                    | (639,744)          |
| Trade and other payables                                  | -                      | -                   | (60,481)             | (60,481)           |
| <b>Financial liability exposure to interest rate risk</b> | <b>(881,813)</b>       | <b>(880,725)</b>    | <b>(60,481)</b>      | <b>(1,823,019)</b> |

The interest rates on the interest bearing loan and borrowing facilities are fixed using interest rate swaps. The interest rate swaps mature in 2043 and the effective interest rate is 3.9%. The Company has recognised its swap liability within its hedging reserve, see note 16.

#### Interest rate benchmark reform

The Company is exposed to the GBP LIBOR benchmark within its hedge accounting relationships, which are subject to interest rate benchmark reform. The hedged items include issued sterling floating rate debt.

The Company has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

**12 FINANCIAL RISK MANAGEMENT (CONTINUED)**

In response to the announcements, the senior management hold quarterly finance meetings where IBOR exposures within the Company are discussed together with a plan to enable a smooth transition to alternative benchmark rates. The Company aims to have its transition and fall back plans in place by the end of 2020.

None of the Company's current GBP LIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working Companies in the industry are working on fall back language for different instruments and different IBORs, which the Company is monitoring closely and will look to implement these when appropriate.

For the Company's derivatives, the International Swaps and Derivatives Association's (ISDA) fall back clauses were made available at the end of 2019 and the Company will discuss with its banks the implementation of this language into its ISDA agreements.

For the Company's floating rate debt, the Company will commence discussions with its lending banks over the coming months in relation to the GBP LIBOR bank loans.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform. The terms of the hedged items listed match those of the corresponding hedging instruments.

| Hedge Type      | Instrument Type                                                                        | Maturity Date | Nominal                                                                      | Hedged Item                                                                                                                                |
|-----------------|----------------------------------------------------------------------------------------|---------------|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Cash Flow Hedge | Multiple Pay 6-month GBP LIBOR + swap rate, receive sterling fixed interest rate swaps | 2043          | £1,967m reduces to £nil on a pre-determined profile over the contract period | Sterling floating rate debt drawn across the Company's four available senior debt facilities of the same maturity and nominal as the swaps |

The Company will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows to which the Company is exposed ends.

The Company has assumed that this uncertainty will not end until the Company's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of any fall back clauses which have yet to be added to the Company's contracts and the negotiation with lenders.

**Market risk - Inflation risk**

The revenues earned by the Company and the majority of operating costs incurred are linked to inflation indices under the terms of the East Coast IEP Network project documents. This results in the Company's operating cash flows being relatively insensitive to inflation and the Company is not therefore exposed to significant inflation risk.

**Credit risk**

Credit risk faced by the Company arises from a combination of the value and term to settlement of balances due and payable with counterparties for both financial and trade transactions.

In order to minimise credit risk, cash investments and derivative transactions are limited to financial institutions with an acceptable credit rating, and counterparties are carefully reviewed. The Company's cash balances are invested in line with the financing agreements which stipulate required ratings that must be achieved. The maximum exposure faced by the Company is limited to cash and the balance of receivables at the year end.

Upon delivery of the first train into service, the Company began to receive revenue from the TOC that is operating the East Coast mainline. Under the terms of the MARA, the Secretary of State for Transport is obliged to provide a replacement in the event of a default and as a result the Company is not exposed to significant credit risk. As such no provision for expected credit losses has been recognised.

**Price risk**

The revenues received by the Company from the TOC are based on a combination of pre-agreed fixed and escalating payments which are subject to poor performance adjustments. As a result the Company is not exposed to significant price risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

12 FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital Management

The Company manages its capital in order to maximise the returns available to shareholders while preserving its ability to continue as a going concern. All but £50,000 of the Company's capital consists of borrowings from a combination of related parties and external lenders. The Company is not subject to any externally imposed capital requirements.

Liquidity risk

The Company adopts a prudent approach to liquidity management by maintaining sufficient cash and available committed facilities to meet its current and immediate obligations.

Under the terms of the existing financing agreements the Company is required to project future cash flows and to determine the level of liquid assets necessary to meet these.

Maturity of financial assets

The maturity profile of the Company's financial assets is as follows.

|                               | Continuing operations 31 March 2020 |                                 |                                  |                                     | Total            |
|-------------------------------|-------------------------------------|---------------------------------|----------------------------------|-------------------------------------|------------------|
|                               | Less than<br>one year<br>£'000      | less than<br>two years<br>£'000 | Less than<br>five years<br>£'000 | Greater than<br>five years<br>£'000 |                  |
| Service concession assets     | -                                   | -                               | -                                | 1,750,305                           | 1,750,305        |
| Trade and other receivables   | 28,579                              | -                               | -                                | -                                   | 28,579           |
| Cash and cash equivalents     | 193,112                             | -                               | -                                | -                                   | 193,112          |
| <b>Total financial assets</b> | <b>221,691</b>                      | <b>-</b>                        | <b>-</b>                         | <b>1,750,305</b>                    | <b>1,971,996</b> |

|                               | Continuing operations 31 March 2019 |                                 |                                  |                                     | Total            |
|-------------------------------|-------------------------------------|---------------------------------|----------------------------------|-------------------------------------|------------------|
|                               | Less than<br>one year<br>£'000      | less than<br>two years<br>£'000 | Less than<br>five years<br>£'000 | Greater than<br>five years<br>£'000 |                  |
| Service concession assets     | -                                   | -                               | -                                | 1,030,487                           | 1,030,487        |
| Trade and other receivables   | 11,095                              | -                               | -                                | -                                   | 11,095           |
| Cash and cash equivalents     | 88,773                              | -                               | -                                | -                                   | 88,773           |
| <b>Total financial assets</b> | <b>99,868</b>                       | <b>-</b>                        | <b>-</b>                         | <b>1,030,487</b>                    | <b>1,130,355</b> |

None of the financial assets are impaired or overdue.

The table below reflects the net present value of cash flows relating to financial liabilities based on the earliest date on which the Company is required to pay. The table includes both interest and principal cash flows.

|                                                 | 31 March 2020                        |                                      | Total              |
|-------------------------------------------------|--------------------------------------|--------------------------------------|--------------------|
|                                                 | Non-recourse<br>liabilities<br>£'000 | Non-recourse<br>derivatives<br>£'000 |                    |
| In one year or less, or on demand               | (40,620)                             | (57,060)                             | (97,680)           |
| In more than one year but less than two years   | (40,268)                             | (58,483)                             | (98,751)           |
| In more than two years but less than five years | (125,971)                            | (160,536)                            | (286,507)          |
| In more than five years                         | (1,679,288)                          | (539,539)                            | (2,218,827)        |
| <b>Total</b>                                    | <b>(1,886,147)</b>                   | <b>(815,618)</b>                     | <b>(2,701,765)</b> |

  

|                                                 | 31 March 2019                        |                                      | Total              |
|-------------------------------------------------|--------------------------------------|--------------------------------------|--------------------|
|                                                 | Non-recourse<br>liabilities<br>£'000 | Non-recourse<br>derivatives<br>£'000 |                    |
| In one year or less, or on demand               | -                                    | (39,323)                             | (39,323)           |
| In more than one year but less than two years   | -                                    | (30,257)                             | (30,257)           |
| In more than two years but less than five years | -                                    | (157,637)                            | (157,637)          |
| In more than five years                         | (1,122,794)                          | (412,527)                            | (1,535,321)        |
| <b>Total</b>                                    | <b>(1,122,794)</b>                   | <b>(639,744)</b>                     | <b>(1,762,538)</b> |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

## 12 FINANCIAL RISK MANAGEMENT (CONTINUED)

The fair value of the loans approximates the carrying value.

No capital commitments were entered into during the current or preceding year.

The following table details the remaining contractual maturity of the Company's non-derivative liabilities. The table below reflects the undiscounted cash flows relating to financial liabilities based on the earliest date on which the Company is required to pay. The table includes both interest and principal cash flows.

|                                    | Weighted<br>average<br>interest<br>rate | In one year<br>or less | In more than one<br>year but less<br>than two years | In more than two<br>years but less<br>than five years | In more than<br>five years | Total              |
|------------------------------------|-----------------------------------------|------------------------|-----------------------------------------------------|-------------------------------------------------------|----------------------------|--------------------|
|                                    | %                                       | £'000                  | £'000                                               | £'000                                                 | £'000                      | £'000              |
| <b>31 March 2020</b>               |                                         |                        |                                                     |                                                       |                            |                    |
| Variable interest rate instruments | 3.9                                     | (35,006)               | (34,703)                                            | (108,562)                                             | (2,175,012)                | (2,353,283)        |
| Fixed interest rate                | 13.0                                    | -                      | (38,352)                                            | (23,857)                                              | (211,878)                  | (274,087)          |
| Non-interest bearing instruments*  | n/a                                     | (75,828)               | -                                                   | -                                                     | -                          | (75,828)           |
|                                    |                                         | <u>(110,834)</u>       | <u>(73,055)</u>                                     | <u>(132,419)</u>                                      | <u>(2,386,890)</u>         | <u>(2,703,198)</u> |
| <b>31 March 2019</b>               |                                         |                        |                                                     |                                                       |                            |                    |
| Variable interest rate instruments | 3.9                                     | -                      | (19,923)                                            | (59,326)                                              | (1,367,895)                | (1,447,144)        |
| Fixed interest rate                | 13.0                                    | -                      | (31,348)                                            | (25,150)                                              | (217,329)                  | (273,827)          |
| Non-interest bearing instruments*  | n/a                                     | (60,481)               | -                                                   | -                                                     | -                          | (60,481)           |
|                                    |                                         | <u>(60,481)</u>        | <u>(51,271)</u>                                     | <u>(84,476)</u>                                       | <u>(1,585,224)</u>         | <u>(1,781,452)</u> |

\* Non-interest bearing instruments relate to trade and other payables

The following table details the remaining contractual maturity of the Company's derivative instruments. The table reflects the undiscounted net cash flows relating to derivative instruments that are settled on a net basis.

|                      | Weighted<br>average<br>interest<br>rate | In one year<br>or less | In more than one<br>year but less<br>than two years | In more than two<br>years but less<br>than five years | In more than<br>five years | Total            |
|----------------------|-----------------------------------------|------------------------|-----------------------------------------------------|-------------------------------------------------------|----------------------------|------------------|
|                      | %                                       | £'000                  | £'000                                               | £'000                                                 | £'000                      | £'000            |
| <b>31 March 2020</b> |                                         |                        |                                                     |                                                       |                            |                  |
| Net settled interest | 3.9                                     | (66,097)               | (68,025)                                            | (188,599)                                             | (669,762)                  | (992,483)        |
|                      |                                         | <u>(66,097)</u>        | <u>(68,025)</u>                                     | <u>(188,599)</u>                                      | <u>(669,762)</u>           | <u>(992,483)</u> |
| <b>31 March 2019</b> |                                         |                        |                                                     |                                                       |                            |                  |
| Net settled interest | 3.9                                     | (48,779)               | (35,419)                                            | (188,549)                                             | (557,234)                  | (829,981)        |
|                      |                                         | <u>(48,779)</u>        | <u>(35,419)</u>                                     | <u>(188,549)</u>                                      | <u>(557,234)</u>           | <u>(829,981)</u> |

## 13 FAIR VALUE OF DERIVATIVES

|                                        | 2020             | 2019             |
|----------------------------------------|------------------|------------------|
| <b>Non-current liabilities</b>         |                  |                  |
| Interest rate swaps                    | (815,618)        | (639,744)        |
| <b>Total fair value of derivatives</b> | <u>(815,618)</u> | <u>(639,744)</u> |

The derivatives have been fair valued in accordance with the Company's accounting policies and IFRS 13 fair value measurement principles. The movement in fair value reflects the changes in the forward curves of interest rates at the year end on the derivative agreements the Company has entered into.

As at 31 March 2020 the Company had entered into nine interest rate swaps agreements in relation to the non-recourse financing. The swaps were designated as cash flow hedges at inception, having met the criteria for hedge accounting. Of the increase in fair value of the liability of £176m on these instruments during the year (2019: increase of £49m), nothing has been recognised in the income statement (2019: £nil) and £176m has been recognised in other comprehensive income and deferred to the hedging reserve (2019: credit of £49m).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

14 DEFERRED TAX

The table below shows the deferred tax asset and liabilities recognised by the Company and movements therein for the years ended 31 March 2020 and 31 March 2019.

|                                          | Cash flow hedges | Service concession assets | Tax losses | Short-term timing difference | Total   |
|------------------------------------------|------------------|---------------------------|------------|------------------------------|---------|
|                                          |                  | £'000                     | £'000      | £'000                        | £'000   |
| At 31 March 2018                         | 100,050          | (8,154)                   | 5,744      | -                            | 97,640  |
| Reallocation of tax basis                | -                | (13,593)                  | 7,683      | 5,910                        | -       |
| Recognised in Income statement           | (10)             | (20,776)                  | 8,400      | 11,726                       | (660)   |
| Recognised in other comprehensive income | 8,717            | -                         | -          | -                            | 8,717   |
| At 31 March 2019                         | 108,757          | (42,523)                  | 21,827     | 17,636                       | 105,697 |
| Recognised in Income statement           | -                | (17,269)                  | 6,107      | 4,193                        | (6,969) |
| Recognised in other comprehensive income | 46,211           | -                         | -          | -                            | 46,211  |
| At 31 March 2020                         | 154,968          | (59,792)                  | 27,934     | 21,829                       | 144,939 |

Closing deferred tax balances have been provided at 19% (2019: 17%).

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The table below provides analysis of deferred tax balances (after offset) for financial reporting purposes.

|                          | 2020           | 2019           |
|--------------------------|----------------|----------------|
|                          | £'000          | £'000          |
| Deferred tax assets      | 191,917        | 135,406        |
| Deferred tax liabilities | (46,978)       | (29,709)       |
|                          | <u>144,939</u> | <u>105,697</u> |

15 SHARE CAPITAL

|                                                                                                    | 2020      | 2019      |
|----------------------------------------------------------------------------------------------------|-----------|-----------|
|                                                                                                    | £'000     | £'000     |
| Authorised, allotted, called up and fully paid:<br>50,000 ordinary shares of £1 each issued at par | <u>50</u> | <u>50</u> |

16 HEDGING RESERVE

|                                               | £'000            |
|-----------------------------------------------|------------------|
| At 31 March 2018                              | (491,981)        |
| Movement in fair value of hedging derivatives | (49,260)         |
| Deferred tax relating to hedging derivatives  | 8,717            |
| At 31 March 2019                              | <u>(532,524)</u> |
| Movement in fair value of hedging derivatives | (176,219)        |
| Deferred tax relating to hedging derivatives  | 46,211           |
| At 31 March 2020                              | <u>(662,532)</u> |

As at 31 March 2020 the Company held nine interest rate swaps, all of which became effective on 30 September 2015. The interest rate swaps are held to hedge against interest rate risk on four senior debt facilities. No gains/losses were recognised on the interest rate swaps in the income statement for the year ended 31 March 2020 (2019: £nil).

17 NOTES TO THE CASH FLOW STATEMENT

|                                           | 2020           | 2019          |
|-------------------------------------------|----------------|---------------|
|                                           | £'000          | £'000         |
| Operating Profit                          | 50,380         | 15,747        |
| Decrease in concession service asset      | 144,662        | 18,615        |
| Decrease / (increase) in receivables      | 5,100          | (63,428)      |
| Increase in payables                      | 15,347         | 47,953        |
| Net cash inflow from operating activities | <u>215,489</u> | <u>18,887</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

17 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities. Cash changes generated from financing activities are disclosed in the cash flow statement. Non-cash changes arising from financing activities include £31.6m of accrued interest (2019: £31.3m), £1.3m of prepaid finance costs (2019: £1.1m). There was no fair value gains or losses relating to interest rate swaps during the year (2019: £nil).

18 TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its related parties are disclosed below.

|                                            | 2020<br>£'000  | 2019<br>£'000  |
|--------------------------------------------|----------------|----------------|
| <b>Agility Trains East (MidCo) Limited</b> |                |                |
| For the year ended 31 March                |                |                |
| Financing                                  | 31,609         | 201,085        |
|                                            | <u>31,609</u>  | <u>201,085</u> |
| Balance payable at 31 March                | <u>305,437</u> | <u>273,828</u> |

In addition to the cash and invoice transactions, finance costs of £31.6m (2019: £31.8m) have been accrued and included within the carrying amount of the liabilities at the year end. The balance payable at 31 March 2020 includes loan note principal totalling £242.5m (2019: £242.5). Allocated prepaid finance costs totalling £30.7m (2019: £32.8m) have been excluded from the carrying amount of the liabilities at the year end.

|                                       | 2020<br>£'000  | 2019<br>£'000  |
|---------------------------------------|----------------|----------------|
| <b>Hitachi, Ltd.</b>                  |                |                |
| For the year ended 31 March           |                |                |
| Trains and depots                     | 687,138        | 267,952        |
| Operations and maintenance            | 61,770         | 3,683          |
| Financing                             | 22,126         | 191,708        |
| Administration                        | 736            | 669            |
|                                       | <u>771,770</u> | <u>464,012</u> |
| Balance payable at 31 March           | <u>212,049</u> | <u>226,379</u> |
| <b>John Laing Investments Limited</b> |                |                |
| For the year ended 31 March           |                |                |
| Financing                             | 379            | 354            |
| Administration                        | 379            | 354            |
|                                       | <u>379</u>     | <u>354</u>     |
| Balance payable at 31 March           | <u>82,436</u>  | <u>82,187</u>  |

As at 31 March 2020, both Hitachi Rail Limited and John Laing Investments Limited are shareholders of Agility Trains East (Holdings) Limited. Hitachi, Ltd. is the immediate parent undertaking of Hitachi Rail Limited.

19 ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent company and controlling party, and the smallest and largest Company in which its results are consolidated is Agility Trains East (Holdings) Limited, a company incorporated in United Kingdom and registered in England and Wales. The Company's immediate parent company is Agility Trains East (MidCo) Limited. The registered office of both companies is 4th Floor, 4 Copthall Avenue, London, EC2R 7DA.

Copies of the consolidated accounts of Agility Trains East (Holdings) Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.