Registration number: 09860466

West Midlands Trains Limited

Annual report and financial statements

for the year ended 31 March 2019

West Midlands Trains Limited

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West Midlands Trains Limited

Company information

Directors	D D G Booth J Edwards A T Pilbeam N Umezawa J Chaudhry D S Lindsay T Omori
Company secretary	Brodies Secretarial Services Limited 15 Atholl Crescent Edinburgh Midlothian EH3 8HA
Company number	09860466
Registered office	2nd Floor St Andrew's House 18-20 St Andrew Street London EC4A 3AG
Bankers	Lloyds Bank PLC City Office PO Box 72 Bailey Drive Gillingham Business Park Kent ME8 0LS
Auditor	Ernst & Young LLP Senior statutory auditor 1 Colmore Square Birmingham B4 6HQ

West Midlands Trains Limited

Strategic report
For the year ended 31 March 2019

The Directors present their Strategic report for the year ended 31 March 2019.

The Directors, in preparing this Strategic report, have complied with Section 414C of the Companies Act 2006.

Principal activity
The principal activity of the Company during the financial year was the operation of passenger railway services.

The Company does not anticipate any change to the principal activity in the foreseeable future.

Business model
The Company operates under a Franchise Agreement with the Department for Transport ("DfT"). The Franchise Contract is for a core period running from 10 December 2017 to 31 March 2026 with a potential further one or two-year extension to 31 March 2027/2028 respectively, awarded at the discretion of the DfT. Our operations cover "turn up and go" metro-style commuter services in and around Birmingham and longer distance commuter services from the Trent Valley and Northampton to London and inter-urban services covering routes from London Euston to Birmingham, Liverpool, Worcester and Shrewsbury. The Company operates under two brand names, West Midlands Railway which covers the commuter services in and around Birmingham and London Northwestern Railway which broadly covers the longer distance commuter services from the Trent Valley and Northampton to London, the Inter-Urban services covering routes from London to Birmingham and the line connecting Birmingham and Liverpool.

Business review and results
In the year ended 31 March 2019 profit before taxation was £41.4m (Restated 2018: £9.8m). Further details of the restatement can be found in note 30. Revenue was £563m (2018: £157m).

The profit after tax in the year was £32.9m (Restated 2018: £7.9m).

The Company's net assets at the balance sheet date were £43.7m (2018: £8.71m).

Revenue from passenger receipts has been lower than initial expectations, this has been driven by a planned delay to the implementation of the December 2018 timetable. This reduction in revenue has been offset with increased subsidy from the DfT.

Key performance indicators ("KPIs")
Operational performance is central to the needs of the Company's customers. This is measured through the Public Performance Measure (PPM). Through continued focus on fleet reliability in day to day activities we have delivered an improvement on the prior year in our PPM performance achieving a moving annual average of 86.7% (2018: 85.9%). Coupled with our ongoing on train Service Quality Regime audit programme and continued investment in customer experience we have achieved 84% in the Autumn National Rail Passenger Survey (2018: 82.5%), we continue to reflect on the areas in the survey where we can improve to ensure we are providing the best possible service to our customers.

As a company we are committed to investment in our employees and endeavour to respond to their views which we canvas through our annual engagement surveys. The 2019 result of 67% (2018: 67%) reflected the first full year of the franchise and highlighted the areas of focus for the company in the subsequent financial year. Action plans have been put in place across the business for all key functions and will be subject to constant review and update throughout the year. The increase in FTE in the year reflects the investment the company is making in additional passenger services and routes and was driven by increases in customer facing staff and train crew. The Board and Management teams have committed to reducing staff absence within the Company through a clear and supportive absence management process, we have achieved an improvement on the prior year at 3.8% (2018: 6.4%) but continue to work to improve this.

Key performance indicators ("KPIs") (continued)
The safety of the Company's employees and customers is of critical importance and working with our partners, British Transport Police, Network rail, Department for Transport and other key stakeholders, the Company consistently endeavours to put in place initiatives, equipment and facilities that will help employees work and customers travel in safety. The Company measures staff safety using 3 key indicators, all of which have either maintained or improved since 2018. This is an area with ongoing scrutiny and focus for the Company as we strive for continual improvement.

Future developments
In accordance with the projects the Company committed to under the Franchise Agreement, during the franchise term we will deliver tangible benefits to our passengers and establish upgrades for the longer term benefit of all stakeholders. Highlights to the considerable programme of initiatives include the delivery of new trains, significant station estate improvements and the extension of wi-fi to the fleet.

Financial instruments
The Company's principal financial assets are bank balances and trade debtors, the latter of which is presented in the balance sheet net of provisions for doubtful debts. The Company's credit risk is primarily attributable to its trade debtors albeit this risk is not considered to be significant given trade debt is largely driven by rail industry partners. The credit risk on liquid assets is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. To protect cashflows, the Company enters into commodity swap contracts to hedge a proportion of its exposures to fuel prices, the cash flow hedge is shown in the balance sheet at fair value. The Company's principal financial liabilities are trade creditors and the fuel hedge liability.

Principal risks and uncertainties
West Midlands Trains is affected by both internal and external risk factors, in response the Company has procedures in place to assess, prioritise, monitor and mitigate business risks. The Board of Directors and senior management team have considerable experience in the industry and their respective fields in order that they are well equipped to respond to and mitigate or manage key issues as they arise.

At an international scale, economic conditions, the global threat of terrorist activity and the ongoing uncertainty over the shape of the future relationship with Europe all impact the UK economy and therefore our performance as a public service to key travel destinations. More locally, whilst revenue has performed well, we operate in an inherently competitive market on our longer distance services meaning any price competition from our competitors places our market share at risk. Maximising market share and development of ancillary revenue streams are areas of focus for the Company.

Under the terms of the Franchise Agreement and the licence conditions, the Company falls under the regulation of the DfT and the Office of Road and Rail. The delivery of the committed obligations, and overall compliance with the Franchise Agreement is an ongoing focus across the business to ensure that non-compliance does not become a risk to the Company.

Approved by the Board on 2 August 2019 and signed on its behalf by:

....
D S Lindsay
Director

West Midlands Trains Limited

Directors' report
For the year ended 31 March 2019

The Directors present their report on the affairs of West Midlands Trains Limited (the 'Company'), together with the audited Financial Statements and Auditor's report, for the year ended 31 March 2019.

Directors
The Directors of the Company who served during the year and up to the date of signing unless otherwise stated were as follows:

D D G Booth

J Edwards

A T Pilbeam

N Umezawa

N Shimada (resigned 10 July 2018)

J Chaudhry

D S Lindsay

T Omori (appointed 10 July 2018)

Going concern
The Directors have considered the Company's ability to continue as a going concern for at least twelve months from the date of approval of these Financial Statements, with reference to a detailed cash flow forecast, budget and relevant financial information. Following review, the Directors are satisfied the Company has sufficient resources available in order to meet its financial obligations as they fall due. On this basis the Directors believe it is appropriate to continue to adopt the going concern basis in preparing the Financial Statements.

Dividend
No dividend was paid or proposed in the year (2018: £nil).

Employees
The Company is committed to involving all employees in its performance and development. Employees are encouraged to discuss with management matters of interest to them and subjects affecting the day to day operations of the Company. Discussions take place regularly with Trade Unions representing the employees on a wide range of issues.

The Company believes in equal opportunities regardless of gender, age, religion or belief, sexual orientation, race and, where practicable, disability. We give full and fair consideration to job applications from people with disabilities, considering their aptitudes and abilities. In respect of existing employees who may become disabled, the Company's policy is to provide continuing employment and appropriate training, career development and promotion of disabled people employed by us.

A number of initiatives in the Franchise Bid are focused on our employees. We continue to run our employee engagement survey which is one of a number of initiatives seeking to engage with our staff across our wide geographical base and we have committed to support all of our management grade staff in the completion of an ILM level 3 qualification, of which the first two cohorts started during the financial year. The Company continues to work to enhance its programmes for flexible working, reward and recognition and recruitment to ensure that the risk of discrimination is mitigated and the benefits from employing a diverse workforce are maximised.

West Midlands Trains Limited

Directors' report (continued)
For the year ended 31 March 2019

Employees (continued)
The Company has a well-established employee briefing process which includes face to face meetings, briefings, newsletters and magazines. These cover the Company's progress in meeting its targets, new developments affecting our operations and news and events from across our network. We have formal relationships with the Trade Unions which address both negotiation and consultation on key issues, relationships with the Trade Unions are stable in a challenging industrial relations environment. Regular employee forums and company council meetings continue to be held in order to maintain constructive relationships.

Directors' indemnities
The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report, subject to the conditions set out in the Companies Act 2006.

Charitable and political contributions
The Company made charitable donations of £nil during the year (2018: £24,149). No political contributions were made in the year.

Auditor
Pursuant to Section 487 (2) of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Directors' 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:

- so 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 they ought to have taken as a Director in order to make themselves 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 provisions of Section 418 of the Companies Act 2006.

Approved by the Board on 2 August 2019 and signed on its behalf by:

....
D S Lindsay
Director

West Midlands Trains Limited

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 such Financial Statements for each financial year. Under that law the Directors have chosen to prepare the Company Financial Statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. 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 year.

In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of West Midlands Trains Limited

Opinion

We have audited the Financial Statements of West Midlands Trains Limited for the year ended 31 March 2019 which comprise the Income statement, the Statement of Comprehensive Income, the Balance Sheet and the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of West Midlands Trains Limited (continued)

Other information (continued)
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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion 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 Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic report or Directors' report.

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

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

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement set out on page 6, 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 West Midlands Trains Limited (continued)

Auditor's responsibilities for the audit of the Financial Statements

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

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

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.

Ernst & Young LLP

Andy Williams (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
1 Colmore Square, Birmingham B4 6HQ

2 August 2019

West Midlands Trains Limited

Income Statement
For the year ended 31 March 2019

	Note	2019 £ 000	(Restated) 2018 £ 000
Revenue	5	563,036	157,463
Operating costs		(521,220)	(147,097)
Operating profit	6	41,816	10,366
Interest receivable and similar income	7	542	33
Interest payable and similar charges	8	(963)	(576)
Profit before taxation		41,395	9,823
Tax on profit	12	(8,543)	(1,951)
Profit for the financial year		32,852	7,872

The above results were derived from continuing operations.

The notes on pages 15 to 43 form an integral part of these Financial Statements.

West Midlands Trains Limited

Statement of Comprehensive Income
For the year ended 31 March 2019

	Note	2019 £ 000	(Restated) 2018 £ 000
Profit for the financial year		32,852	7,872
Items that will not be reclassified subsequently to profit or loss:			
Gains on cashflow hedges arising during the year		2,613	981
Tax on items relating to components of other comprehensive income	12	(476)	(135)
		2,137	846
Total comprehensive income for the financial year		34,989	8,718

The notes on pages 15 to 43 form an integral part of these Financial Statements.

West Midlands Trains Limited

Balance Sheet
As at 31 March 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Intangible assets	14	5,026	5,407
Property, plant and equipment	15	19,417	12,330
Fuel hedge asset	22	2,727	553
		27,170	18,290
Current assets			
Inventories	17	3,735	2,597
Trade and other receivables	18	50,320	36,275
Cash and cash equivalents	21	107,114	71,965
Fuel hedge asset	22	867	586
		162,036	111,423
Total assets		189,206	129,713
Current liabilities			
Trade and other payables	19	(120,749)	(98,909)
Loans and borrowings	20	(11,001)	-
Current tax liabilities	12	(5,283)	(1,951)
Provisions for liabilities	23	(8,236)	(8,841)
		(145,269)	(109,701)
Non-current liabilities			
Loans and borrowings	20	-	(11,001)
Fuel hedge liability	22	-	(158)
Deferred tax liabilities	13	(230)	(135)
		(230)	(11,294)
Total liabilities		(145,499)	(120,995)
Shareholders equity			
Share capital	24	-	-
Hedging reserve	24	2,983	846
Retained earnings	24	40,724	7,872
Total equity		43,707	8,718
Total equity and liabilities		189,206	129,713

The notes on pages 15 to 43 form an integral part of these Financial Statements.

West Midlands Trains Limited

Balance Sheet (continued)
As at 31 March 2019

The Financial Statements of West Midlands Trains Limited (registration number: 09860466) were approved by the Board and authorised for issue on 2 August 2019. They were signed on its behalf by:

....

D S Lindsay

Director

The notes on pages 15 to 43 form an integral part of these Financial Statements.

West Midlands Trains Limited

Statement of Changes in Equity
For the year ended 31 March 2019

	Called-up share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2017	-	-	-	-
Profit for the year (Restated)	-	-	7,872	7,872
Other comprehensive income (Restated)	-	846	-	846
Total comprehensive income	-	846	7,872	8,718
At 31 March 2018	-	846	7,872	8,718

	Called-up share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2018	-	846	7,872	8,718
Profit for the year	-	-	32,852	32,852
Other comprehensive income	-	2,137	-	2,137
Total comprehensive income	-	2,137	32,852	34,989
At 31 March 2019	-	2,983	40,724	43,707

The notes on pages 15 to 43 form an integral part of these Financial Statements.

1 General information

The Company is a Private Company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom.

The address of its registered office is:
2nd Floor St Andrew's House
18-20 St Andrew Street
London
EC4A 3AG
United Kingdom

These Financial Statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. The values are rounded to the nearest pound (£000) except when otherwise indicated.

2 Adoption of new and revised standards

Application of new and revised International Financial Reporting Standards
The following adopted IFRSs have been issued and applied by the company in these financial statements.

However, their adoption does not have an effect on these financial statements:

- IFRS 9 Financial Instruments (effective date 1 April 2018 other than hedge accounting provisions, effective 1 April 2019);
- IFRS 15 Revenue from Contract with Customers (effective date 1 April 2018);

(i) *IFRS 9 Financial Instruments*

The standard replaces IAS 39 Financial Instrument: Recognition and Measurement. It introduces new requirements for classifying and measuring financial instruments and a new impairment model for financial assets.

The details of the new significant accounting policies are set out below. As noted above, the application of these new accounting policies has had no effect on the classification or measurement of amounts recognised within these financial statements.

Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the following IAS 39 categories for financial assets: held to maturity, loans and receivables and available for sale. Under IFRS 9, a financial asset is measured on initial recognition at amortised cost or fair value through the income statement.

The following accounting policies apply to the application of subsequent measurements of financial assets:

Financial assets at fair value via the income statement

These assets are valued at their fair value. Net profits and losses, including any interest or dividend income, are recognised in the income statement.

2 Adoption of new and revised standards (continued)

Financial assets at amortised cost

These assets are valued at amortised cost using the effective interest method. Impairment losses are deducted from the amortised cost. Interest income, exchange rate gains and losses, and impairments are recognised in the income statement. Any profit or loss as a result of the removal from the balance sheet is recognised in the income statement.

Impairment of financial assets

IFRS 9 replaces the incurred credit loss model in IAS 39 with an expected credit loss model. The new impairment model applies to financial assets valued at amortised cost, contract assets, and investments in debt investments when the fair value is recognised via the comprehensive income, but not to investments in equity instruments. Credit losses are recognised at an earlier stage in IFRS 9 than in IAS 39. This change has not led to an adjustment to the amounts recognised in the company's financial statements.

(ii) *IFRS 15 'Revenue from Contracts with Customers'*

IFRS 15 provides a comprehensive framework for the recognition of revenue within the company. The new standard replaces IAS 18 'Revenue'. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a certain time or in the course of time - generally requires judgement.

While there has been no change to the measurement basis, under the terms of the standard, the company has applied IFRS 15 according to the modified retrospective method, with the effect of initial application of this standard on the date of first application (i.e. 1 April 2018). Accordingly, the information presented for 2018 has not been adjusted, i.e. the information is presented in accordance with IAS 18. Moreover, the disclosure requirements in IFRS 15 are generally not applied to the comparative figures.

The application of IFRS 15 has no effect on the Income statement or Balance sheet compared to IAS 18.

Impact of initial application of other amendments to IFRS Standards and Interpretations

In the current year, the new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2019, have had no material impact on the Company.

3 Accounting policies

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Please refer to note 30 for details of a change in accounting policy for defined benefit pensions.

Statement of compliance

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The Financial Statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

3 Accounting policies (continued)

Basis of accounting

The Financial Statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these Financial Statements is determined on such a basis, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment
- the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Where relevant, equivalent disclosures have been given in the consolidated accounts of NV Nederlandse Spoorwegen. The consolidated accounts of NV Nederlandse Spoorwegen are available to the public and may be obtained by writing to Laan van Puntenburg 100, 3511 ER, Utrecht, Netherlandse.

The principal accounting policies adopted are set out below.

Going concern

The Directors have considered the Company's ability to continue as a going concern for a period of at least twelve months from the date of approval of these Financial Statements, with reference to a detailed cash flow forecast, budget and relevant financial information. Following review, the Directors are satisfied the Company has sufficient resources available in order to meet its financial obligations as they fall due. On this basis the Directors believe it is appropriate to continue to adopt the going concern basis in preparing the Financial Statements.

3 Accounting policies (continued)

Revenue

Ticketed passenger revenue

The company generates revenue from tickets for rail travel sold under the conditions of the National Rail Conditions of Travel. The ticket sold forms a binding contract between passenger and any train operating company. The transaction price for each ticket is set via the Rail Settlement Plan, which attributes the price of a ticket purchased to the relevant TOCs based on the ORCATS allocation.

There are three types of ticket; daily tickets; season tickets and railcards. The sections below set out the revenue recognition for each ticket type.

Daily tickets
The company has assessed that there is one performance obligation for the provision of transport on the specified day and for the specified route set out on the ticket.

The transaction price of each ticket is the company's share from the Rail Settlement Plan and this is recognised as revenue on the day of travel specified on the ticket.

Season tickets
The company has assessed that there is one performance obligation for the provision of transport on the specified time period and for the specified route set out on the ticket. Although the customer can use the service multiple times (over the course of the season ticket), this does not constitute multiple performance obligations as this is a series of distinct services that are substantially the same and have the same benefit to the customer. As such this is one performance obligation.

The transaction price of each ticket is the company's share from the Rail Settlement Plan and as the company transfers control of the season ticket over time and therefore satisfies the performance obligation over time, revenue is recognised over the validity period of the season ticket on a straight line basis.

Rail cards
The company has assessed that there is one performance obligation for the provision of discounted rail travel over the validity period set out on the railcard.

The transaction price of each ticket is the company's share from the Rail Settlement Plan and as the company transfers control of the railcard over time and therefore satisfies the performance obligation over time, revenue is recognised over the validity period of the railcard on a straight line basis.

Station access
The company provides access to train stations it operates, to other train operating companies, under a station access agreement. The company has assessed that there is one performance obligation under each agreement and that the company transfers control of the services provided to the customer over a period of time. As such, revenue, based on the transaction price set out in the contract, is recognised on a straight line basis over the financial reporting period.

3 **Accounting policies (continued)**

Revenue (continued)

Train maintenance

The company provides train maintenance services to other train operating companies, and its modification for Rolling Stock Operating Company ('ROSCO') leasing companies under service contracts. The company has assessed that there is one performance obligation under each agreement and that the company transfers control of the services provided to the customer over a period of time. As such, revenue, based on the transaction price set out in the contract, is recognised on a straight line basis over the financial reporting period.

Commission

The company generates commission income, through the sale of rail tickets to third parties, on behalf of various train operating companies in the UK. The company has assessed that there is one performance obligation and that the company transfers control of the services provided at the point the sale of the ticket occurs. As such, the commission income is recognised at the point the sale of the ticket occurs.

Car park income

The company provides car parking services to customers at stations. A contract exists between the company and the customer upon the issue of a ticket. The company has assessed that there is one performance obligation and that the company transfers control of the services provided to the customer on a particular day, for daily tickets, or over a period of time for season tickets.

The transaction price is specified on the ticket.

For daily tickets the revenue is recognised on the day of parking specified on the ticket.

For season tickets as the company transfers control of the season ticket over time and therefore satisfies the performance obligation over time, revenue is recognised over the validity period of the season ticket on a straight line basis.

Revenue is recognised net of any discounts and value added tax.

Franchise subsidies - (Government grants and subsidies)

Government grants and subsidies receivable for tendered services and concessionary fare schemes and financial support receivable from Department for Transport are included in turnover and accounted for in accordance with IAS 20.

Other operating income

Other operating income is derived from rolling stock hire, on-train catering, advertising income, depot payments and the provision of goods or services to other train operating companies and excludes value added tax. It is recognised on an accruals basis. Amounts received in respect of performance regimes are netted against operating costs.

Sublease income

Sublease income represents income from the rental of rolling stock. The Company has assessed that there is only one performance obligation for sublease income and the Company transfers control of the goods provided over the period of the contract. The transaction price of each contract is the sublease charge to the tenant which is recognised on a straight line basis over the financial reporting period.

3 Accounting policies (continued)

Revenue (continued)
Rental income
Rental income represents income from the lease of station properties. The Company has assessed that there is only one performance obligation for rental income and the Company transfers control of the goods provided over the period of the contract. The transaction price of each contract is the rental charge to the tenant which is recognised on a straight line basis over the financial reporting period.

Dilapidation provision
The Dilapidation provision represents an obligation to return certain rolling stock back to its original state during the franchise. The Company has been compensated for this cost from the previous franchise owner.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable or receivable is based on taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is recognised on all temporary differences between tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Property, plant and equipment
Plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets, other than land, on a straight-line basis over its expected useful life as follows:

Asset class	**Depreciation method and rate**
Land and buildings	5 to 7 years straight line
Plant and machinery	3 years straight line

Assets under construction
Assets under construction are held in the balance sheet at cost until completed at which point they are capitalised and depreciated in accordance with the specified policies.

3 Accounting policies (continued)

Leased assets

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the Income Statement on a straight-line basis over the period of the lease.

At the end of certain operating leases the Company has an obligation to return the assets to the lessor in an appropriate condition. The anticipated costs of meeting these return conditions are included within the Financial Statements.

Operating lease incentives

The Company recognises the aggregate effect of operating lease incentives as an element of rental expense. The value of the incentive is included within accruals and deferred income, and amortised over the life of the lease.

Intangible assets

Intangible fixed assets are stated at original cost less accumulated amortisation and accumulated impairment. Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Asset class	Amortisation method and rate
Pre-contract costs	7 years straight line
Computer software	7 years straight line

Pre-contract costs

Pre-contract costs associated with securing new rail franchises are expensed as incurred, except where it is virtually certain that a franchise will be awarded, in which case they are recognised as an intangible asset and are amortised on a straight-line basis over the life of the franchise.

Impairment of tangible and intangible assets

At each reporting end date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3 Accounting policies (continued)

Impairment of tangible and intangible assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried in at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories
Inventories are valued at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is calculated using the weighted average method. Cost includes all costs incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Defined benefit pension obligation
The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis. The Company's main obligation in respect of the Railway Pension Scheme is to pay contributions as agreed with the scheme actuary and trustees over the franchise term.

Any deficit in the defined benefit pension obligation reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A "franchise adjustment" is made to the deficit on this basis. The franchise adjustment is the projected deficit to the end of the franchise term, which the Company will not be required to fund, discounted to present value.

3 Accounting policies (continued)

Defined benefit pension obligation (continued)

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments and less the "franchise adjustment". Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown within interest payable and interest receivable respectively. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets in the statement of financial position.

Financial instruments

The Company uses derivative financial instruments such as commodity swap fuel contracts to hedge its risks associated with the movement in fuel prices. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, the Company's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. Any gains or losses that do qualify for hedge accounting are taken to other comprehensive income.

The Company has commodity swap fuel contracts that were put in place during 2017 and expire at the end of 2022.

Trade receivables

Trade and other receivables are stated at fair value (plus any directly attributable transaction costs) upon initial recognition. Subsequent to initial recognition, they are recognised at amortised cost using the effective interest method.

The company forms a provision for impairment equal to the size of the lifetime expected credit losses from trade and other receivables. The loss provision is determined on the basis of historical payment data and forward looking information.

3 Accounting policies (continued)

Financial instruments (continued)

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Financial assets

Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories. The classification depends on the nature, and purpose of the financial assets and is determined at the time of recognition. Refer to note 2 for further details.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'. Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition. Refer to note 2 for further details.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Franchise subsidy income

In accounting for franchise subsidies the Company receives under the Franchise Agreement, the Company applies IAS 20, Government Grants. This requires grants to be recognised as income on a systematic basis. Judgement is required in determining the most appropriate basis upon which to systematically recognise the franchise subsidies.

5 Revenue

The analysis of the Company's revenue all of which arose in the United Kingdom is as follows:

	2019 £ 000	2018 £ 000
Passenger income	369,437	105,735
Franchise subsidies	133,389	38,567
Other operating income	54,444	12,752
Rental income	5,766	409
	563,036	157,463

6 Operating profit

Operating profit has been arrived at after charging:

	2019 £ 000	(Restated) 2018 £ 000
Staff costs (note 9)	150,547	43,150
Loss on disposal of property, plant and equipment	43	-
Operating lease expense - property	11,108	3,265
Operating lease expense - rolling stock	85,279	24,269
Amortisation expense (note 14)	642	191
Depreciation expense (note 15)	2,670	648
Network rail access charges	85,421	19,859
Auditor's remuneration (note 11)	216	126

7 Interest receivable and similar income

	2019 £ 000	(Restated) 2018 £ 000
Interest income on bank deposits	462	33
Net interest income on pension scheme (see note 29)	80	-
	542	33

In the current year the Company has changed the presentation of interest on the defined benefit pension scheme to present this on a net basis, consistent with IAS 19.120(b) and the financial statements of fellow group undertakings. This change does not affect the profit for the current or prior year.

8 Interest payable and similar charges

	2019 £ 000	(Restated) 2018 £ 000
Interest on bank overdrafts and borrowings	442	440
Interest payable to related undertakings	521	135
Net interest on pension scheme (see note 29)	-	1
	963	576

In the current year the Company has changed the presentation of interest on the defined benefit pension scheme to present this on a net basis, consistent with IAS 19.120(b) and the financial statements of fellow group undertakings. This change does not affect the profit for the current or prior year.

9 Staff costs

Their aggregate remuneration comprised:

	2019 £ 000	(Restated) 2018 £ 000
Wages and salaries	127,837	36,757
Social security costs	13,976	3,917
Pension costs, defined benefit scheme	8,734	2,476
	150,547	43,150

The average monthly number of employees (including Directors) since the inception of the franchise was as follows:

9 Staff costs (continued)

	2019 No.	2018 No.
Drivers	776	762
On-train staff	580	553
Station staff	563	493
Fleet maintenance staff	311	344
Management and administrative	499	435
	2,729	2,587

10 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2019 £ 000	2018 £ 000
Remuneration	422	130
Company pension contributions	40	14
	462	144

The number of Directors for whom retirement benefits are accruing under defined benefit and defined contribution schemes amounted to 2 (2018: 2).

The remuneration disclosed above represents only those costs that are attributable to the running of West Midlands Trains Limited.

In respect of the highest paid director:

	2019 £ 000	2018 £ 000
Remuneration	264	72
Company contributions to money purchase pension schemes	27	9
	291	81

11 Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2019 £ 000	2018 £ 000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	208	118
All other non-audit services	8	8
	216	126

12 Tax

Tax charged for the year in the profit and loss account:

	2019 £ 000	(Restated) 2018 £ 000
Current taxation		
UK corporation tax	8,809	1,951
Adjustments in respect of prior periods	115	-
	8,924	1,951
Deferred taxation		
Current year	(393)	-
Adjustment in respect of prior periods	(29)	-
Effect of changes in tax rates	41	-
Total deferred taxation (see note 13)	(381)	-
Tax expense in the income statement	8,543	1,951

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018: higher than the standard rate of corporation tax in the UK) of 19% (2018: 19%).

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2019 £ 000	(Restated) 2018 £ 000
Profit before tax	41,395	9,823
Corporation tax at standard rate of 19% (2018: 19%)	7,865	1,866
Effects of:		
Increase from effect of capital allowances depreciation	87	-
Expenses not deductible	541	85
Tax rate differential	41	-
Exempt amounts	9	-
Tax expense for the year	8,543	1,951

Factors that may affect future tax charges

Corporation tax rate reduction to 17% effective from 1 April 2020 was enacted in 2016 and will reduce the Company's future current tax charge rate accordingly.

12 Tax (continued)

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised in other comprehensive income:

	2019 £ 000	(Restated) 2018 £ 000
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
Cash flow hedges		
Tax on items relating to components of other comprehensive income	444	135
Tax on items relating to prior year adjustments of other comprehensive income	32	-
Total income tax recognised in other comprehensive income	476	135

13 Deferred tax

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

	2019 £ 000	(Restated) 2018 £ 000
Brought forward as at 1 April	135	-
Deferred tax credit in income statements for the period	(352)	-
Deferred tax credit in income statements in respect of prior periods	(29)	-
Deferred tax charge in OCI for the period	444	135
Deferred tax charge in OCI in respect of prior periods	32	-
Deferred tax liability as at 31 March	230	135

14 Intangible assets

	Software costs £ 000	Pre-contract costs £ 000	Total £ 000
Cost or valuation			
At 1 April 2018	730	4,868	5,598
Additions	261	-	261
At 31 March 2019	991	4,868	5,859
Amortisation			
At 1 April 2018	25	166	191
Amortisation charge	-	642	642
At 31 March 2019	25	808	833
Carrying amount			
At 31 March 2019	966	4,060	5,026
At 31 March 2018	705	4,702	5,407

15 Tangible fixed assets

	Assets under construction £ 000	Land and buildings £ 000	Plant and machinery £ 000	Total £ 000
Cost or valuation				
At 1 April 2018	478	3,588	8,912	12,978
Additions	4,526	3,621	1,649	9,796
Disposals	-	-	(42)	(42)
At 31 March 2019	5,004	7,209	10,519	22,732
Depreciation				
At 1 April 2018	-	110	538	648
Charge for the year	-	376	2,294	2,670
Eliminated on disposal	-	-	(3)	(3)
At 31 March 2019	-	486	2,829	3,315
Carrying amount				
At 31 March 2019	5,004	6,723	7,690	19,417
At 31 March 2018	478	3,478	8,374	12,330

16 Investments

One share in each of the following companies is held by West Midlands Trains Limited and were all acquired for nil consideration.

Company name	Capital	Proportion held	Activities
ATOC Limited	£0.04	5.0%	Contracting arm of ATOC
Rail Settlement Plan Limited	£0.05	5.0%	Operates the income allocation and settlement routines on behalf of ATOC
Rail Staff Travel Limited	£0.05	5.0%	Manages staff travel in the industry on behalf of ATOC
Train Information Services Limited	£1.00	5.0%	Provides rail related information to the public

The registered office for all the above companies is 200-202 Part Second Floor, Aldersgate Street, London, EC1 4HD.

17 Inventories

	2019 £ 000	2018 £ 000
Uniform stocks	-	296
Engineering spare parts and fuel	3,735	2,301
	3,735	2,597

There was no material differences between the replacement value of stock and the cost value.

£0.2m of uniform stock was written down to zero in the year to 31 March 2019 (2018: £nil). The value of inventory expensed in the Income Statement during the year was £21.36m (2018: £4.2m).

18 Trade and other receivables

	2019 £ 000	2018 £ 000
Amounts falling due within one year:		
Trade receivables	6,484	8,462
Amounts owed by group undertakings	-	75
Other receivables	21	16
Social security and other taxes	5,689	6,369
Prepayments and accrued income	38,126	21,353
	50,320	36,275

19 Trade and other payables

	2019 £ 000	2018 £ 000
Trade payables	46,914	29,039
Amounts due to group undertakings	839	5,981
Social security and other taxes	7,206	6,155
Deferred income	34,710	30,629
Other payables	8,987	7,981
Deferred season ticket income	19,293	19,124
Accruals	2,800	-
	120,749	98,909

The deferred season ticket income is secured by a season ticket bond in accordance with the terms of the Franchise Agreement.

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

20 Loans and borrowings

	2019 £ 000	2018 £ 000
Current liabilities		
Loans due to group undertakings (NS Groes NV)	7,711	-
Loans due to group undertakings (Mitsui & Co Ltd)	1,645	-
Loans due to group undertakings (East Japan Railway Company)	1,645	-
	11,001	-

	2019 £ 000	2018 £ 000
Non-current liabilities		
Loans due to group undertakings (NS Groes NV)	-	7,711
Loans due to group undertakings (Mitsui & Co Ltd)	-	1,645
Loans due to group undertakings (East Japan Railway Company)	-	1,645
	-	11,001

The Loans were initially repayable after three years from the commencement of the franchise falling due on 10th December 2020, however these were repaid in full on 1 April 2019. The loans attracted interest at a fixed 4% rate per annum.

21 Cash and cash equivalents

Included within cash at bank is an amount of £85.9m (2018: £41.2m) held, which cannot be distributed by means of dividend in order to maintain our liquidity commitments under the Franchise Agreement with the DfT.

22 Financial instruments

	2019 £ 000	2018 £ 000
Non-current assets		
Fuel hedge asset	2,727	553

	2019 £ 000	2018 £ 000
Current assets		
Fuel hedge asset	867	586

	2019 £ 000	2018 £ 000
Current liabilities		
Fuel hedge liability	-	-

	2019 £ 000	2018 £ 000
Non-current liabilities		
Fuel hedge liability	-	158

The commodity swap contracts that were put in place between 2017 are between West Midlands Trains Limited and HSBC Bank plc.

The Company operates passenger railways services in the UK and, as such, is exposed to movements in fuel prices. To protect cash flows, the Company enters into commodity swap contracts, to hedge a proportion of its exposures to fuel price.

The fair value of the fuel hedge was calculated using a discounted cash flow methodology. The forward rate, for diesel was calculated on a monthly basis for the duration of the contract, and converted into pounds sterling using a forward rate.

23 Provisions

	CLE Provision	Dilapidations	Passenger insurance provision	Annual leave provision	Total
	£000	**£000**	**£000**	**£000**	**£000**
At 1 April 2018	**2,682**	**2,952**	**130**	**3,077**	**8,841**
Provided in the year	4,364	220	1,725	-	6,309
Utilised in the year	(1,273)	(822)	(16)	(7)	(2,118)
Released in the year	(1,846)	-	(38)	(2,912)	(4,796)
At 31 March 2019	**3,927**	**2,350**	**1,801**	**158**	**8,236**
Analysed as:					
Current	3,927	2,350	1,801	158	8,236
	3,927	**2,350**	**1,801**	**158**	**8,236**

Central London Employment
The West Midlands Trains Franchise Agreement includes a mechanism for the sharing of revenue risk with the Department for Transport and is based on an independent assessment of growth through the Central London Employment measure. The mechanism includes an upper and lower band beyond which payments are made to/from West Midlands Trains depending on the performance of the franchise. The provision represents West Midlands Trains' liability to the DfT under the mechanism arising from above target performance during the period.

Passenger insurance provision
Passenger insurance provision represents the cost to settle claims for incidents prior to the Balance Sheet date based on an assessment of the expected settlement, together with an estimate of settlements that will be made in respect of incidents that have not yet been reported by the insurer. Both the estimate of settlements that will be made in respect of claims received, as well as the estimate of settlements made in respect of incidents not yet reported, are based on historic trends which can alter over time reflecting the length of time some matters can take to be resolved.

Dilapidations
The provision relating to Dilapidations was taken over by West Midlands Trains Limited at the commencement of the franchise to cover payments due to Angel Trains for rolling stock dilapidation at the end of the contractual term for these trains.

Annual Leave Provision
Annual Leave Provision represents annual leave which has been earned by staff and has yet to be taken.

24 Equity

Authorised

	2019	2018
	£	£
1 Ordinary share of £1 each	1	1

Allotted, called up and fully paid

	2019	2018
	£	£
1 Ordinary share of £1 each	1	1

The Company has one ordinary class of shares which carry no right to fixed income.

The Company's other reserves are as follows:

Retained earnings
The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Hedging reserve
The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

25 Capital commitments

As at 31 March 2019, amounts contracted for property, plant and equipment but not provided for in the Financial Statements amounted to £5.3m (2018: £0.6m).

26 Obligations under leases and hire purchase contracts

Operating leases
At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019	2018
	£ 000	£ 000
Within one year	91,315	89,793
In two to five years	385,236	386,578
In over five years	197,014	292,039
	673,565	768,410

26 Obligations under leases and hire purchase contracts (continued)

Operating lease agreements where the Company is lessor
The Company leases office and retail spaces at our stations

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2019 £ 000	2018 £ 000
Within one year	9,664	2,939
	9,664	2,939

27 Contingent liabilities

The Company, as the franchisee, has procured a performance bond in favour of the Department for Transport. This bond is in place for the franchise term and for a period of seven reporting periods after the end of the franchise. The performance bond amount as at 31 March 2019 was £15m (2018: £15m).

In addition, the Company, as the franchisee, has procured a season ticket bond in favour of the Department for Transport. The maximum season ticket bond value as at 31 March 2019 was £23.9m (2018: £18.6m).

The Company has procured a bond in favour of its parent companies. The bonds are in place for the franchise term and for a period of seven reporting periods after the end of the franchise. The parent company bond amount as at 31 March 2019 was £74m on a 70% Abellio, 15% Mitsui and 15% East Japan Railway Company (2018: £74m).

28 Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries. Transactions entered into, and trading balances outstanding at 31 March with other related parties, are as follows:

	Sales to Related Parties	Purchases from Related Parties	Amounts Owed to Related Parties
	£ 000	£ 000	£ 000
Abellio Transport Holdings	33	5,096	396
Abellio London & Surrey - Bus	-	5,498	348
Abellio BV	-	727	95
NS Groes NV	-	-	7,711
Mitsui & Co Ltd	-	-	1,645
East Japan Railway Company	-	-	1,645
	33	11,321	11,840

29 Retirement benefits

The Company is a member of a defined benefit pension scheme, which is funded. The Company commenced contributing to the defined benefit scheme on 10 December 2017, when the franchise started. All eligible employees are offered membership of the Railway Pension Scheme.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The schemes' assets are held and managed independently of the Company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 7.93% (2018: 7.93%) for employees and 11.90% (2018: 11.90%) for employers.

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of earnings increase would be 2.5% per annum and the rate of inflation would be (RPI/CPI) 3.10%/2.00% per annum. The valuation was made using the projected unit method.

Under the terms of the Railways Pension Scheme (RPS), any fund deficit is shared by the employer (60%) and the employees (40%) of contributions agreed with the Scheme Trustees and actuaries and for which there is no funding cap set out in the franchise contract.

The majority of the Company's employees were members of the London and Birmingham Railway Limited Shared Cost Sections of the RPS, a funded defined benefit scheme. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. To date, the Group, within which this Company was a member, has experienced seven changes of UK Train franchise ownership where the current owner has funded the scheme during the franchise term. By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the Scheme trustees and actuaries and for which there is no funding cap set out in the franchise contract.

Any deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term. A 'franchise adjustment' is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term which the Company will not be required to fund, discounted back to present value. Please refer to note 30 for the details of the change in accounting policy relating to IAS 19 that has been applied in the financial statements.

The valuations used have been based on the most recent actuarial valuation at 31 December 2016 and updated by Mercer in order to assess the liabilities of the schemes as at the subsequent balance sheet dates. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are applied to each category of scheme assets. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit method.

29 Retirement benefits (continued)

The breakdown of asset categories is as follows:

	2019		2018	
	Growth Pooled fund	Illiquid Growth Pooled fund	Growth Pooled fund	Illiquid Growth Pooled fund
	%		%	
Private Equity	-	84.41	-	90.43
Direct Investments	-	6.85	-	-
Property	12.19	-	11.20	-
Absolute Return Strategies	5.76	-	2.34	-
Global Equities	59.64	-	61.55	-
Global Credit/Fixed Income	13.01	-	14.15	-
Cash	9.40	8.74	10.76	9.57
	100.00	100.00	100.00	100.00

Net defined benefit position

	2019 £ 000	2018 £ 000
Fair value of scheme assets	511,152	467,799
Present value of scheme liabilities	(705,879)	(639,500)
Franchise adjustment	116,836	103,021
Defined benefit obligation	(77,891)	(68,680)
Members' share of deficit	77,891	68,680
Deficit in the scheme	-	-

Scheme assets are stated at their market value at the respective balance sheet dates.

29 Retirement benefits (continued)

Analysis of the amount charged to profit before taxation:

	2019 £ 000	(Restated) 2018 £ 000
Current service cost - Employer	16,616	4,754
Administrative expenses - Employer	2,074	194
Interest income on pension scheme assets	(7,830)	(2,508)
Interest on franchise adjustment	(2,880)	(822)
Interest expense on defined benefit obligation	10,630	3,331
Franchise adjustment	(9,956)	(2,470)
Amount charged in arriving at the profit for the financial year	8,654	2,479

Re-measurements recognised in the Statement of comprehensive income for the year are analysed as follows:

	2019 £ 000	(Restated) 2018 £ 000
Gain from changes in demographic assumptions	(16,126)	-
Actuarial loss arising from changes in financial assumptions	44,126	1,194
(Gains)/loss on scheme assets excluding interest income	(26,366)	9,490
(Gain) on change in members' share	(654)	(4,268)
(Gain) on franchise adjustment	(980)	(6,416)
Total re-measurement recognised in the Statement of comprehensive income	-	-

Changes in the fair value of plan asset are analysed as follows:

	2019 £ 000	2018 £ 000
Fair value of scheme assets at 1 April	467,799	-
Transfer from previous franchisee	-	471,179
Interest Income - Employer	7,830	2,508
Interest Income - Employee	5,220	1,670
Cash contributions - Employer	8,654	2,475
Cash contributions - Employee	5,600	1,586
Benefits paid	(6,860)	(1,805)
Administration expense - Employer	(2,074)	(194)
Administration expense - Employee	(1,383)	(130)
Gain/(loss) on scheme assets excluding interest income	26,366	(9,490)
Fair value of schemes assets at 31 March	511,152	467,799

The movement in the present value of the defined benefit scheme liabilities, which is partly funded, is as stated below. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. The movement on scheme liabilities below represents 100% of the scheme liabilities.

29 Retirement benefits (continued)

The defined benefit obligation is £511m (2018: £467m) from plans that are wholly or partly funded.

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2019 £ 000	2018 £ 000
Defined benefit obligation at 1 April	639,500	-
Transfer from previous franchisee	-	626,700
Current service cost - Employer	16,616	4,754
Current service cost - Employee	10,907	3,107
Interest on benefit obligation - Employer	10,630	3,331
Interest on benefit obligation - Employee	7,087	2,219
Benefits paid	(6,860)	(1,805)
Gain from changes in demographic assumptions	(16,126)	-
Remeasurements - change in financial assumptions	44,126	1,194
Defined benefit obligation at 31 March	705,880	639,500

The following assumptions have been used:

	2019	2018
Rate of increase in salaries	2.60%	2.50%
Rate of increase of pensions	2.00%	1.90%
Discount rate	2.60%	2.80%
Inflation assumption	2.00%	1.90%

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	*Change in Assumption*	*Impact on scheme liabilities*
Discount rate	Increase/decrease by 25 bps	Decrease by 5.60%/increase by 6.00%
Inflation assumption	Increase/decrease by 25 bps	Increase by 6.00%/decrease by 5.60%
Rate of salary increases	Increase/decrease by 25 bps	Increase by 1.60%/decrease by 1.50%
Post retirement mortality	Increase in life expectancy by 1 year	Increase by 2.60%

The expected contributions for the Company for year end 31 March 2020 are £9.3m (2018: £8.3m).

30 Prior year restatement

Change in accounting policies

During 2018, a decision was made to change the way the Company accounted for the defined benefit rail pension scheme in order to more accurately account for the costs that are expected to be borne by the franchisee during the term of the franchise. In the current franchise agreement it has been agreed that the franchisee is only responsible for agreed contributions, or a pension deficit over the period of the franchise. When the franchise ends, all rights and obligations with regard to the employees will be transferred to the new franchisee.

As such, only the portion of the surplus or deficit relating to the pension plan is recognised on the Company's statement of financial position that is expected to be realised during the term of the franchise based on the assumptions and agreements on the balance sheet date.

The Company has changed the accounting policies for the pension costs in the profit and loss account. From now on, only the costs that are expected to be borne by the franchisee (the Company) during the term of the franchise are recorded in the income statement. These net pension costs are therefore calculated, taking into account that part of the costs that will be borne by the employees (40%) and by other parties after the end of the current franchise period. This net calculation does take into account any allocation within the franchise period that may (possibly) occur with the triennial assessments during the franchise period or adjustments to the annual contributions over the franchise period.

Up to and including 2018, the full IAS 19 service costs were recognised in the profit and loss account. The Company has revised its accounting policy to now only recognise the company's resulting share of service costs in its profit and loss account. The net service cost is therefore calculated looking at the near term liability for the employees only, and the costs of the employer only, over the life of the franchise rather than costs that will be borne by other parties. This compares to the previous approach where the full service cost was included within the profit and loss account and the franchise adjustments arising were recognised through the statement of comprehensive income.

The adjusted accounting policy provides a better insight into the part of the costs actually borne by the Company. This amendment also ties in with the corresponding change that a number of other franchisees in the United Kingdom have made in recent years.

As permissible under IAS 19,120(b), in the current year the company has changed its accounting policy in respect of the presentation of interest charges and interest income arising on the defined benefit pension scheme. Interest is now presented on a net basis which is consistent with the financial statements of other entities in the Abellio Group.

This change has resulted in a reduction of £3,330k in interest receivable and similar income and a reduction of £3,330k in interest payable and similar charges as presented on the face of the Income Statement for the period ended 31 March 2018. There has been no impact of this change in the accounting policy on the amount of reported profit in either 31 March 2018 or 31 March 2019.

The Income Statement for 31 March 2018 has been restated accordingly. Note 7, Interest receivable and similar income and Note 8, Interest payable and similar charges have also been restated in respect of this matter.

30 Prior year restatement (continued)

The tables below provide a detailed overview of the effect of the changes made to the 31 March 2018 income statement and the 31 March 2018 statement of comprehensive income. The change has no net effect on the size of the equity or other balance sheet items.

Income Statement for the year ended 31 March 2018

	As originally reported £ 000	Reclassification £ 000	As restated £ 000
Revenue	157,463	-	157,463
Operating Costs	(149,567)	2,470	(147,097)
Operating profit	7,896	2,470	10,366
Interest receivable and similar income	3,363	(3,330)	33
Interest payable and similar charges	(3,906)	3,330	(576)
Profit before taxation	7,353	2,470	9,823
Tax on profit	(1,531)	(420)	(1,951)
Profit for the financial year	5,822	2,050	7,872

30 Prior year restatement (continued)

Statement of Comprehensive Income for the year ended 31 March 2018

	As originally reported £ 000	Reclassification £ 000	As restated £ 000
Profit for the financial year	5,822	2,050	7,872
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of post employment benefit obligation	2,470	(2,470)	-
Tax on items relating to components of other comprehensive	(420)	420	-
	2,050	(2,050)	-
Items that may be reclassified subsequently to profit or loss:			
Gains on cashflow hedges arising during the year	981	-	981
Tax on items relating to components of other comprehensive	(135)	-	(135)
	846	-	846
Total other comprehensive income for the year	2,896	(2,050)	846
Total comprehensive income for the financial year	8,718	-	8,718

31 Ultimate parent and controlling undertaking

The Company is a wholly owned subsidiary of West Midlands Holdings Limited, a Company incorporated in England and Wales with its registered office at 2nd Floor St Andrew's House, 18-20 St Andrew Street, London, EC4A 3AG.

In the opinion of the Directors, the Company's ultimate parent Company and ultimate controlling party is NV Nederlandse Spoorwegen, a Company incorporated in The Netherlands. The registered office address of NV Nederlandse Spoorwegen, and the address of where copies of the consolidated Financial Statements are available from is, Laan van Puntenburg 100, 3511 ER, Utrecht, The Netherlands.