Registration number: 09860466

West Midlands Trains Limited

Annual report and Financial Statements

for the year ended 31 March 2018

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

West Midlands Trains Limited

Strategic report
For the year ended 31 March 2018

The Directors present their strategic report for the year ended 31 March 2018.

The Directors, in preparing this strategic report, have complied with s414C 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 awarded by the Department for Transport with the contract commencing on 10 December 2017. Prior to this date, the Company did not trade. The franchise contract is for a core period running from 10 December 2017 to 31 March 2025 with a potential further one-year extension to 31 March 2026. The Company operates trains and manages stations, working with key partners, such as Network Rail, who maintain and control access to the tracks, and rolling stock companies who own the trains that the Company leases.

Business review and results
In the first four months of trading to 31 March 2018 there was an operating profit of £7.9m (2017: £nil). Turnover was £157.5m (2017: £nil) which included £38.6m (2017: £nil) of franchise subsidies from the Department for Transport, rental income of £0.4m (2017: £nil), passenger income of £105.7m (2017: £nil) and other operating income of £12.8m (2017: £nil).

The profit after tax in the year was £5.8m (2017: £nil).

The Company's net assets at the balance sheet date were £8.7m (2017: £nil).

The results for the year are underpinned by the transitional activity undertaken during the early part of the franchise. Revenues are generally in line with expectations with a higher than normal cost being incurred for the additional activity undertaken by the transitional team. This is offset by an increased Department for Transport subsidy receipt.

The Directors have considered the impacts of the annual audited result on Relevant Profit as defined in Schedule 8.2 Paragraph 1.2 of the Franchise Agreement in so far as it relates to the calculation of profit share. For the year ended 31 March 2018, the Relevant Profit is below the first threshold as defined in Appendix 1 of Schedule 8.2 of the Franchise Agreement and accordingly no Profit Share is payable.

Key performance indicators ("KPIs")
The Company measures its performance based on a balanced scorecard of indicators.

The financial performance of the Company is measured by profit, with the results for the year set out above.

Operational performance is of critical importance to the Company's customers. This is measured through the Public Performance Measure (PPM). During the year the Company achieved a moving average PPM of 85.9% (2017: nil%).

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 in a number of ways with a key indicator being the number of loss time injuries (LTIs). In the year to 31 March 2018 LTIs were 3.

West Midlands Trains Limited

Strategic report (continued)
For the year ended 31 March 2018

Key performance indicators ("KPIs") (continued)
People are vital to the delivery of the Company's business strategy and objectives and it measures performance in a number of ways with a key indicator being employee attendance, which was 93.6% in the year to 31 March 2018 (2017: nil%).

Future developments
During the term of the franchise the Company will deliver tangible benefits for passengers and establish upgrades for the longer term benefit of all stakeholders. The programme of initiatives includes the delivery of new trains, significant station estate improvements, the extension of wi-fi to the fleet and the introduction of digital customer information screens.

Financial instruments
The Company's principal financial assets are bank balances and trade debtors. The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the Balance Sheet are net of provisions for doubtful debts. The Company has no significant credit risk, with exposure mainly to 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 and Company creditors and the fuel hedge liability.

Principal risks and uncertainties
The Company is subject to both internal and external risk factors. Appropriate mitigations for these risks are developed and reviewed regularly by the Board.

External factors such as the global economic conditions and the impact of the oil price on the economy can have an impact on passenger numbers and revenue, along with the global threat of terrorist activity. Uncertainty on the shape of the future relationship with Europe remains a risk. The cost risk of significant movements in the cost of fuel is broadly mitigated from fuel hedges entered into by the Company.

Internal project delivery risks from the introduction of the new and refurbished train fleets, are managed by dedicated project management teams to minimise the effects of these risks.

Abellio Group, a related undertaking, provides the Company with support and is committed to the long-term success of the business. The Company has reviewed financial plans for the year of the franchise with the Abellio Group and remains confident that appropriate measures are in place to manage risk.

Under the terms of the Franchise Agreement and the license conditions, the Company falls under the regulation of the Department for Transport 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 19/7/18 and signed on its behalf by:

....
D S Lindsay
Director

West Midlands Trains Limited

Directors' report
For the year ended 31 March 2018

The Directors present their report on the affairs of the Company, together with the Financial Statements and Auditor's report, for the year ended 31 March 2018.

Directors

The Directors of the Company who served during the year and up to the date of signing were:

D D G Booth

J Edwards

A T Pilbeam (appointed 20 July 2017)

N Umezawa (appointed 28 July 2017)

N Shimada (appointed 9 January 2018 and resigned 10 July 2018)

J Chaudhry (appointed 23 January 2018)

D S Lindsay (appointed 23 January 2018)

The following director was appointed after the year end:

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 (2017: £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 particular 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 focussed on our employees; we are currently rolling out to all staff smart phones to allow them to be better equipped in responding to passenger queries, essential in times of disruption. We have committed to a new HQ for staff and have introduced an employee engagement survey, which is one of a number of initiatives seeking to engage with staff to understand and support their specific training needs. 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.

The Company has a well-established employee briefing process which includes face to face meetings, briefings, newsletters and magazines. These cover the business context, the Company's progress in meeting its targets and new developments affecting our operations. We have formal relationships with the Trade Unions which address both negotiation and consultation on key issues.

West Midlands Trains Limited

Directors' report (continued)
For the year ended 31 March 2018

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, subject to the conditions set out in the Companies Act 2006.

Charitable and political contributions

The Company made charitable donations of £24,149 during the year (2017: £nil). No political contributions were made in the year.

Auditor

Ernst & Young LLP were appointed as auditor to the Company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put to a General Meeting.

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 s418 of the Companies Act 2006.

Approved by the Board on 19/7/18 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; and
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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.

West Midlands Trains Limited

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 2018 which comprise the Income statement, the Statement of Comprehensive Income, the Balance Sheet and the Statement of Changes in Equity and the related notes 1 to 29, 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 2018 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.

West Midlands Trains Limited

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
Birmingham, UK

Date: 20 July 2018

West Midlands Trains Limited

Income Statement
For the year ended 31 March 2018

	Note	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Revenue	4	157,463	-
Operating Costs		(149,567)	-
Operating profit	5	7,896	-
Interest receivable and similar income	6	3,363	-
Interest payable and similar charges	7	(3,906)	-
Profit before taxation		7,353	-
Tax on profit	11	(1,531)	-
Profit for the financial year		5,822	-

The above results were derived from continuing operations.

The notes on pages 14 to 38 form an integral part of these Financial Statements.

West Midlands Trains Limited

Statement of Comprehensive Income
For the year ended 31 March 2018

	Note	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Profit for the financial year		5,822	-
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of post employment benefit obligation	28	2,470	-
Tax on items relating to components of other comprehensive income	11	(420)	-
		2,050	-
Items that may be reclassified subsequently to profit or loss:			
Gains on cashflow hedges arising during the year		981	-
Tax on items relating to components of other comprehensive income	11	(135)	-
		846	-
Total other comprehensive income for the year		2,896	-
Total comprehensive income for the financial year		8,718	-

The notes on pages 14 to 38 form an integral part of these Financial Statements.

West Midlands Trains Limited

Balance Sheet
As at 31 March 2018

	Note	31 March 2018 £ 000	31 March 2017 £ 000
Non-current assets			
Intangible assets	13	5,407	-
Property, plant and equipment	14	12,330	-
Fuel hedge asset	21	553	-
		18,290	-
Current assets			
Inventories	16	2,597	-
Trade and other receivables	17	36,275	-
Cash and cash equivalents	20	71,965	-
Fuel hedge asset	21	586	-
		111,423	-
Total assets		129,713	-
Current liabilities			
Trade and other payables	18	(98,909)	-
Current tax liabilities	11	(1,951)	-
Provisions for liabilities	22	(8,841)	-
		(109,701)	-
Non-current liabilities			
Loans and borrowings	19	(11,001)	-
Fuel hedge liability	21	(158)	-
Deferred tax liabilities	12	(135)	-
		(11,294)	-
Total liabilities		(120,995)	-
Shareholders equity			
Share capital	23	-	-
Hedging reserve	23	846	-
Retained earnings	23	7,872	-
Total equity		8,718	-
Total equity and liabilities		129,713	-

The Financial Statements of West Midlands Trains Limited (registration number: 09860466) were approved by the Board of Directors and authorised for issue on 19/7/18. They were signed on its behalf by:

....

D S Lindsay

Director

The notes on pages 14 to 38 form an integral part of these Financial Statements.

West Midlands Trains Limited

Statement of Changes in Equity
For the year ended 31 March 2018

	Called-up share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	-	-	-	-
Profit for the period	-	-	-	-
Total comprehensive income	-	-	-	-
At 31 March 2017	-	-	-	-

	Called-up share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2017	-	-	-	-
Profit for the year	-	-	5,822	5,822
Other comprehensive income	-	846	2,050	2,896
Total comprehensive income	-	846	7,872	8,718
At 31 March 2018	-	846	7,872	8,718

The notes on pages 14 to 38 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 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.

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.

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;

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

- 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.

Revenue

The Company has one principal class of business, namely the provision of passenger transport services. The whole of the turnover and profit before taxation derives from the Company's principal activities within the United Kingdom.

Passenger income represents agreed amounts attributed to the Company by the income allocation systems of Rail Settlement Plan Limited. The Passenger Income Allocation is based upon detailed models of passenger behaviour, and upon allocations from specific revenue flows.

Revenue is recognised in the year it is earned. Revenue which relates to future years is deferred and released to the profit and loss account over the relevant year that the revenue is earned.

2 Accounting policies (continued)

Revenue (continued)

- **Passenger income**
  Passenger income is recognised in the year it is earned. Where sales are made in the current financial year for travel post year end, the revenue is deferred and released to the profit and loss in the year that the revenue is earned.

  The attributed share of season ticket income is deferred within trade and other payables and released to the profit and loss account over the life of the relevant season ticket.
- **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 ticket commissions, rolling stock hire, on-train catering, advertising, property letting income, depot and station access 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.
- **Rental income**
  Rental income is recognised on an accruals basis in line with the Company's general revenue recognition policy as stated above.

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 property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

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

2 Accounting policies (continued)

Property, plant and equipment (continued)

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.

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:

Development costs
Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Asset class	Amortisation method and rate
Development 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.

2 Accounting policies (continued)

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.

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.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

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.

2 Accounting policies (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.

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).

When some or 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.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the company's obligation.

Defined benefit pension obligation

The Company contributed to a defined benefit pension scheme on behalf of the majority of its employees. The Company participated in the Railways Pension Scheme ("RPS"), a defined benefit scheme which covers the whole of the UK Rail industry. This is partitioned into sections and the Company is responsible for the funding of its sections whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The Company provides a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

2 Accounting policies (continued)

Defined benefit pension obligation (continued)
The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in other comprehensive income in the period in which they occur.

Financial assets

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.

2 Accounting policies (continued)

Financial assets (continued)

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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. Financial assets are initially measured at fair value plus transaction costs.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable, payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting end date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been affected.

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.

Derecognition of financial liabilities

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

2 Accounting policies (continued)

Financial assets (continued)

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.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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.

Pension and other post-employment benefits

The cost of defined benefit pensions plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. The discount rate is based on the market yields at the reporting date on high quality corporate bonds. The currency and term of the corporate bonds should be consistent with the currency and estimated term of the post-employment benefit obligations. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 28.

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 over the period necessary to match them with the related costs for which they are intended to compensate. Judgement is required in determining the most appropriate basis upon which to systematically recognise the franchise subsidies. The Company have used the original budget used in the franchise bid model as the initial basis for the recognition of subsidy income. This has then been compared to actual revenues and costs incurred and to the extent the variances are material, the subsidy recognised has been adjusted to reflect actual results.

4 Revenue

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

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Passenger income	105,735	-
Franchise subsidies	38,567	-
Other operating income	12,752	-
Rental income	409	-
	157,463	-

5 Operating Profit

Operating Profit has been arrived at after charging:

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Staff costs (note 8)	45,622	-
Operating lease expense - property	3,265	-
Operating lease expense - rolling stock	24,269	-
Amortisation expense (note 13)	191	-
Depreciation expense (note 14)	648	-
Network rail access charges	19,859	-
Auditor's remuneration (note 10)	126	-

6 Interest receivable and similar income

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Interest income on bank deposits	33	-
Interest income on pension scheme assets (see note 28)	2,508	-
Interest on franchise adjustment (see note 28)	822	-
	3,363	-

7 Interest payable and similar charges

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Interest on bank overdrafts and borrowings	440	-
Interest payable to related undertakings	135	-
Interest expense on defined benefit obligation (see note 28)	3,331	-
	3,906	-

8 Staff costs

Their aggregate remuneration comprised:

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Wages and salaries	36,757	-
Social security costs	3,917	-
Pension costs, defined benefit scheme	4,948	-
	45,622	-

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

	Year ended 31 March 2018 No.	1 January 2017 to 31 March 2017 No.
Drivers	762	-
On-train staff	553	-
Station staff	493	-
Fleet maintenance staff	344	-
Management and administrative	435	-
	2,587	-

9 Directors' remuneration

The Directors' remuneration for the year was as follows:

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Remuneration	130	-
Company pension contributions	14	-
	144	-

The number of Directors for whom retirement benefits are accruing under defined benefit and defined contribution schemes amounted to two (2017: nil).

Directors salaries are borne by another group entity. The remuneration disclosed above represents only those costs that are attributable to the running of West Midlands Trains Limited.

10 Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	118	-
All other non-audit services	8	-

11 Tax

(a) Tax charged for the year/period in the profit and loss account:

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Current taxation		
UK corporation tax	1,951	-
Deferred taxation		
Current year	(420)	-
Tax expense in the income statement	1,531	-

11 Tax (continued)

The tax on profit before tax for the year/period is higher than the standard rate of corporation tax in the UK (2017: the same as the standard rate of corporation tax in the UK) of 19% (2017: 20%).

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

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Profit before tax	7,353	-
Corporation tax at standard rate	1,397	-
Expenses not deductible	85	-
Tax rate differential	49	-
Tax expense for the year/period	1,531	-

Factors that may affect future tax charges

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017. A further 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.

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:

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
Defined benefit pension obligation		
Gains arising during the year	420	-
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges		
Gains arising during the year	135	-
Total income tax recognised in other comprehensive income	555	-

12 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:

	Year ended 31 March 2018 £ 000	1 January 2017 to 31 March 2017 £ 000
Brought forward as at 1 April	-	-
Deferred tax on cash flow derivatives	135	-
Deferred tax liability as at 31 March	135	-

13 Intangible assets

	Software costs £ 000	Development costs £ 000	Total £ 000
Cost			
At 1 April 2017	-	-	-
Additions	730	4,868	5,598
At 31 March 2018	730	4,868	5,598
Amortisation			
At 1 April 2017	-	-	-
Amortisation charge	25	166	191
At 31 March 2018	25	166	191
Carrying amount			
At 31 March 2018	705	4,702	5,407
At 31 March 2017	-	-	-

14 Tangible fixed assets

	Assets under construction £ 000	Land and buildings £ 000	Plant and machinery £ 000	Total £ 000
Cost				
At 1 April 2017	-	-	-	-
Additions	478	3,588	8,912	12,978
At 31 March 2018	478	3,588	8,912	12,978
Depreciation				
At 1 April 2017	-	-	-	-
Charge for the year	-	110	538	648
At 31 March 2018	-	110	538	648
Carrying amount				
At 31 March 2018	478	3,478	8,374	12,330
At 31 March 2017	-	-	-	-

15 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.

The above investments transferred from London & Birmingham Railway Limited on 10 December 2017.

16 Inventories

	31 March 2018 £ 000	31 March 2017 £ 000
Uniform stocks	296	-
Engineering spare parts and fuel	2,301	-
	2,597	-

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

No stock was written down in the period to 31 March 2018 (2017: £nil). The value of inventory expensed in the Income Statement during the year was £4.18m (2017: £nil).

17 Trade and other receivables

	31 March 2018 £ 000	31 March 2017 £ 000
Amounts falling due within one year:		
Trade receivables	8,462	-
Amounts owed by group undertakings	75	-
Other receivables	16	-
Social security and other taxes	6,369	-
Prepayments and accrued income	21,353	-
	36,275	-

18 Trade and other payables

	31 March 2018 £ 000	31 March 2017 £ 000
Trade payables	29,039	-
Amounts due to group undertakings	5,981	-
Social security and other taxes	6,155	-
Deferred income	30,629	-
Other payables	7,981	-
Deferred season ticket income	19,124	-
	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.

19 Loans and borrowings

	31 March 2018 £ 000	31 March 2017 £ 000
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 are repayable after three years from the commencement of the franchise falling due on 10th December 2020. During the loan year interest is payable at 4% per annum.

20 Cash and cash equivalents

Included within cash at bank is an amount of £41,156,000 (2017: £nil) held, which cannot be distributed by means of dividend in order to maintain our liquidity commitments under the Franchise Agreement with the DfT.

21 Financial instruments

	31 March 2018 £ 000	31 March 2017 £ 000
Non-current assets		
Fuel hedge asset	553	-

	31 March 2018 £ 000	31 March 2017 £ 000
Current assets		
Fuel hedge asset	586	-

	31 March 2018 £ 000	31 March 2017 £ 000
Current liabilities		
Fuel hedge liability	-	-

	31 March 2018 £ 000	31 March 2017 £ 000
Non-current liabilities		
Fuel hedge liability	158	-

21 Financial instruments (continued)

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.

22 Provisions

	CLE Provision	Dilapidations	Provision for passenger compensation	Annual leave provision	Total
	£000	£000	£000	£000	£000
At 1 April 2017	-	-	-	-	-
Provided in the year	2,682	2,952	130	3,077	8,841
Utilised in the year	-	-	-	-	-
At 31 March 2018	2,682	2,952	130	3,077	8,841
Analysed as:					
Current	2,682	2,952	130	3,077	8,841
	2,682	2,952	130	3,077	8,841

Central London Employment

The West Midlands Train 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.

Provision for passenger compensation

Provision for passenger compensation 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.

22 Provisions (continued)

Dilapidations

The provision relating to Dilapidations was been 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.

23 Equity

Authorised

	31 March 2018	31 March 2017
	£	£
1 Ordinary shares of £1 each	1	1

Allotted, called up and fully paid

	31 March 2018	31 March 2017
	£	£
1 Ordinary shares 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.

24 Capital commitments

As at 31 March 2018, amounts contracted for property, plant and equipment but not provided for in the Financial Statements amounted to £598,000 (2017: £nil).

25 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:

	31 March 2018 £ 000	31 March 2017 £ 000
Within one year	89,793	-
In two to five years	386,578	-
In over five years	292,039	-
	768,410	-

As at 31st March 2018 rolling stock commitments related to fleet taken on from LM with existing agreements up to 31st December 2019. New fleet to be phased in from 1st January 2020 with lease agreements in place for these as at 31st March 2018

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:

	31 March 2018 £ 000	31 March 2017 £ 000
Within one year	2,939	-
In two to five years	-	-
In over five years	-	-
	2,939	-

26 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 2018 was £15,000,000 (2017: £nil).

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 2018 was £18,554,000 (2017: £nil).

27 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 by Related Parties	Amounts Owed to Related Parties
	£ 000	£ 000	£ 000	£ 000
Abellio Transport Holdings	75	8,421	75	5,167
Abellio London & Surrey - Bus	-	1,352	-	690
Abellio NS ENK	-	310	-	124
NS Groes NV	-	-	-	7,711
Mitsui & Co Ltd	-	-	-	1,645
East Japan Railway Company	-	-	-	1,645
	75	10,083	75	16,982

28 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% for employees and 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.

28 Retirement benefits (continued)

The majority of the company's employees are 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 is 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.

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.

The breakdown of asset categories is as follows:

	2018		2017	
	Growth Pooled fund	Illiquid Growth Pooled fund	Growth Pooled fund	Illiquid Growth Pooled fund
	%		%	
Private Equity	0.00	90.43	0.00	0.00
Property	11.20	0.00	0.00	0.00
Absolute Return Strategies	2.34	0.00	0.00	0.00
Global Equities	61.55	0.00	0.00	0.00
Global Credit/Fixed Income	14.15	0.00	0.00	0.00
Cash	10.76	9.57	0.00	0.00
	100.00	100.00	0.00	0.00

28 Retirement benefits (continued)

Net defined benefit position

	31 March 2018 £ 000	31 March 2017 £ 000
Fair value of scheme assets	467,799	-
Present value of scheme liabilities	(639,500)	-
Franchise adjustment	103,021	-
Defined benefit obligation	(68,680)	-
Members' share of deficit	68,680	-
Deficit in the scheme	-	-

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

Analysis of the amount charged to profit before taxation:

	31 March 2018 £ 000	31 March 2017 £ 000
Current service cost - Employer	4,754	-
Administrative expenses - Employer	194	-
Interest income on pension scheme assets	(2,508)	-
Interest on franchise adjustment	(822)	-
Interest expense on defined benefit obligation	3,331	-
Amount charged in arriving at the profit for the financial year	4,949	-

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

	31 March 2018 £ 000	31 March 2017 £ 000
Loss on scheme assets excluding interest income	9,490	-
Actuarial loss arising from changes in financial assumptions	1,194	-
(Gain) on franchise adjustment	(8,886)	-
(Gain) on change in members' share	(4,268)	-
Total re-measurement recognised in the Statement of comprehensive income	(2,470)	-

28 Retirement benefits (continued)

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

	31 March 2018 £ 000	31 March 2017 £ 000
Fair value of scheme assets at 1 April	-	-
Transfer from previous franchisee	471,179	-
Interest Income - Employer	2,508	-
Interest Income - Employee	1,670	-
Cash contributions - Employer	2,475	-
Cash contributions - Employee	1,586	-
Benefits paid	(1,805)	-
Administration expense - Employer	(194)	-
Administration expense - Employee	(130)	-
Loss on scheme assets excluding interest income	(9,490)	-
Fair value of schemes assets at 31 March	467,799	-

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.

The defined benefit obligation is £467,799,000 (2017: £nil) from plans that are wholly or partly funded.

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

	31 March 2018 £ 000	31 March 2017 £ 000
Defined benefit obligation at 1 April	-	-
Transfer from previous franchisee	626,700	-
Current service cost - Employer	4,754	-
Current service cost - Employee	3,107	-
Benefits paid	(1,805)	-
Interest on benefit obligation - Employer	3,331	-
Interest on benefit obligation - Employee	2,219	-
Remeasurements - change in financial assumptions	1,194	-
Defined benefit obligation at 31 March	639,500	-

The following assumptions have been used:

28 Retirement benefits (continued)

	2018	2017
Rate of increase in salaries	2.50%	-
Rate of increase of pensions	1.90%	-
Discount rate	2.80%	-
Inflation assumption	1.90%	-
Expected rates of return on assets by scheme	2.80%	-

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	Increase/decrease by 2.80%
Inflation assumption	Increase/decrease by 25 bps	Increase/decrease by 1.90%
Rate of salary increases	Increase/decrease by 25 bps	Increase/decrease by 2.50%
Post retirement mortality	plus one year rating	Increase by 2.50%

The expected contributions for the Company for year end 31 March 2019 are £8,290,000.

29 Ultimate parent and controlling undertaking

The Company is a wholly owned subsidiary of West Midlands Holdings Limited, a Company incorporated in England and Wales.

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.