Registration number: 09860466

West Midlands Trains Limited

Annual report and financial statements

for the year ended 31 March 2020

West Midlands Trains Limited

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West Midlands Trains Limited

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Directors	D D G Booth J Edwards D S Lindsay T Omori D A Kaye Y Ieda
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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 2020

The Directors present their Strategic report and financial statements for West Midlands Trains Limited (the "Company") for the year ended 31 March 2020.

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 operated under a Franchising Agreement with the Department for Transport ("DfT"), which was intended to be in place 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. During March 2020, the UK was placed into a nationwide lock down and the UK Government advised the population that could work from home to do so and to avoid all non-essential travel. As a result of reduced passenger revenue, the Company entered into an Emergency Measures Agreement ("EMA") on 31st March 2020, which was retrospectively applied with effect from 1st March 2020 and an Emergency Recovery Measures Agreement ("ERMA") effective from 20th September 2020 for a period of 12 months to 19 September 2021.

Under the terms of the ERMA, the DfT assumes revenue and cost risk, other than for any disallowable costs as defined by the ERMA which the Company would be liable for if incurred. The DfT also fund capital expenditure of the Company unless the capital expenditure is being funded by a third party under a previously agreed contract. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved.

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 2020 the loss before taxation was £193.1m (2019: profit of £41.4m). Revenue was £570.2m (2019: £563.0m). The loss after tax in the year was £195.9m (2019: profit of £32.9m).

The Company's net liabilities at the balance sheet date were £162.0m (2019: net assets of £43.7m).

Revenue was lower in March 2020 due to the impact of the 'stay at home', guidance issued by the UK Government. The reduction in revenue has been offset with an increased subsidy from the DfT.

The results include exceptional charges of £216.7m and includes an impairment charge on assets of £15.9m and an onerous contract provision of £200.4m which is disclosed in note 26. Management have prepared updated financial forecasts to the end of the ERMA and have made an onerous contract provision based on the cost of exiting the Franchise Agreement, which was the contractual agreement in place at the balance sheet date.

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 and operational resilience in day to day activities we have delivered an improvement on the prior year in our PPM performance achieving a moving annual average of 78.9% (2019: 86.6%). Coupled with our ongoing on train Service Quality Regime audit programme and continued investment in customer experience we have achieved 73% the Autumn National Rail Passenger Survey (2019: 84.0%). 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 2020 result of 71% (2019: 67.0%) 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 Full Time Employee (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. Staff absence has increased compared to 2019 to 6.8% (2019: 3.8%), this is primarily due to the impact of Coronavirus and staff needing to shield in March 2020, we continue to work to improve this.

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 2019. This is an area with ongoing scrutiny and focus for the Company as we strive for continual improvement.

Under the terms of the EMA the DfT monitored performance through the following qualitative performance measures;

- Operational performance,
- Customer Experience,
- Being a good and efficient operator.

Performance was measured through a simple mechanism of one, two or three, which is the highest available score. The performance under the EMA was calculated post year end.

Future developments

The EMA were replaced on 20 September 2020 by Emergency Recovery Measures Agreements (ERMA). The ERMA is for a period of 12 months and, similar to the EMA, costs are borne by the DfT with an, albeit smaller, management fee earned by West Midlands Trains. The DfT linked the fee to four performance targets: operational, financial, customer service and collaboration with Network Rail. The ERMA contract will expire on 19 September 2021 with an option for DfT to extend the ERMAs by a maximum of 7 rail periods of 4 weeks.

A fundamental condition on signing the ERMA was that we agreed on a process to terminate the existing franchise agreement at the end of the ERMA period and the DfT has begun a process of transition to a new contract. Direct awards of potentially 4 to 6 years in duration will replace the ERMA where we meet the qualifying criteria. The expectation is that revenue and cost risks will remain with the UK government. Further details on the Direct Award process and terms and conditions are expected during the second half of 2021.

Future developments (continued)

As part of the termination process, a Termination Sum is payable based on the forward financial projections of the franchise in absence of the corona virus pandemic. The Termination Sum is capped at the undrawn Parent Company Support ("PCS") guarantees and the net assets of the Train Operating Companies ('TOC'). The Termination sum of £90.5m communicated by the DfT post year end is now the exposure for the shareholders of West Midlands Trains Limited. On 13 May 2021, the shareholders have approved and communicated their acceptance to the DfT.

Coronavirus pandemic response

The impact of the Coronavirus pandemic in the UK has been significant and unprecedented. The World Health Organisation ("WHO") announced Covid-19 as a global health emergency on 30 January 2020, with the first cases of Coronavirus in the UK confirmed on 31 January 2020. During February, the number of confirmed cases in the UK started to rise. On 23 March 2020, the Government introduced widespread social distancing and lockdown measures for the UK and instructed people not to use public transport unless they were key workers. This led to a significant reduction in public transport usage, with West Midlands operating a reduced timetable and with significantly less patronage. While passenger revenues started to recover during the summer and early autumn, these fell significantly as further local and national restrictions were introduced.

The UK Government acted swiftly to sustain the country's rail networks during the pandemic, ensuring services could continue to be operated for essential workers to travel by rail to perform their vital roles. Prior to the end of the year, the DfT confirmed that an Emergency Measures Agreement ("EMA") would be put in place effective from 1 March 2020 through to 20 September 2020 to mitigate the revenue, cash flow, and capital expenditure risks facing the company. Subsequently this was extended in the form of an Emergency Recovery Measures Agreement ("ERMA"). The ERMA is in place until 19 September 2021. Under both the EMA and the ERMA, earnings are limited to a fixed management fee and a performance-related fee based on certain operational and customer service metrics.

At the conclusion of the ERMA, the shareholders of the franchisee have a choice of either reverting to the original contract or terminating the contract. The latter option includes a financial assessment of the franchise that can result in a termination payment being made. Given the significant reductions in forecast revenue, it is believed that the original contract is no longer commercially viable. The Company has therefore entered a process to terminate the original franchise agreement with the DfT. The termination process includes a financial assessment of the outturn of the franchise if the pandemic had not occurred. If this assessment shows a loss then a payment is made to the SoS in respect of this loss. On 13 May 2021, a Termination Sum of £90.5m has now been formally agreed with the Secretary of State. Please see the Post Balance Sheet note (note 34) for further details. Following agreement of the Termination Sum, the company is eligible to enter into discussions in respect of a directly awarded National Rail Contract (NRC) under which the company will continue to deliver passenger rail services following the end of the ERMA.

Onerous contract

As at 31 March 2020, the Company was operating under the terms of the Franchise Agreement as varied by the EMA. Following the expiry of the EMA term on 20 September 2020, the Company was due to revert to the terms of the underlying Franchise Agreement. However as noted in the Business Model section the Company did not revert to the Franchise Agreement and subsequently agreed the ERMA variation to the Franchise Agreement, effective from 20 September 2020. At the conclusion of the ERMA on 19 September 2021, the Company has a choice of either reverting to the terms of the Franchise Agreement or entering into a contract termination process. The process aims to establish whether a profit or loss would have been made for the contract term had Covid-19 not occurred. If a future loss would have been made then a Termination Sum is payable.

Onerous contract (continued)

Given the significant and unprecedented impact of Covid-19 on the financial results of the Company, management has carried out an onerous contract review at the balance sheet date and concluded that the Franchise Agreement is not commercially viable and the unavoidable costs of meeting the obligations under the Franchise Agreement, as varied by the EMA, for the period to the end of the franchise term in 2026, exceed the economic benefits expected to be received under it. The contractual obligations of the ERMA have not been considered in this assessment as the ERMA variation did not exist at the balance sheet date. In accordance with IAS 37, an onerous contract provision of £200.4m has been recognised within these financial statements, which is the estimated compensation payable to exit the contract. This is based on information available at 31 March 2020 and represents the lower of the estimated cost of fulfilling the contract, being the Franchise Agreement as varied by the EMA, and the compensation payable to exit the contract.

In arriving at this estimate management has considered publicly available information for similar transactions in the industry, up to 31 March 2020, when franchise agreements have terminated early, where outstanding Parent Company Support facilities were drawn, the Performance Bond called and the entity's residual net assets paid to the Department for Transport.

Subsequent to the balance sheet date, based on the provisions of the ERMA, which was entered into on 20 September 2020, the Company has been in discussions with the Department for Transport to determine if a Termination Sum is payable for the termination of the Franchise Agreement at the end of the ERMA period on 19 September 2021. On 23 April 2021, the DfT offered the Company a sum of £90.5m payable to terminate the Franchise Agreement, which was approved by the shareholders on 13 May 2021. Given the ERMA contract and offer were not in existence at 31 March 2020, the Company cannot reflect this position in the financial statements as at 31 March 2020.

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 the senior management team have considerable experience in the industry and in their respective fields and are therefore 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.

Section 172(1) Statement

The directors of the Company must act in accordance with a set of general duties. These duties are detailed in section 172(1)(a - f) of the UK Companies Act 2006, which is summarised as follows;

A director of a Company must act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so have regard to the following matters.

(a) the likely consequences of any decision in the long-term;
(b) the interests of the Company's employees;
(c) the need to foster the Company's business relationships with suppliers, customers and others;
(d) the impact of the Company's operations on the community and the environment;
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between shareholders of the Company.

Overview of how the directors discharged their duties

The sections below set out how the directors have satisfied these duties for the year ended 31 March 2020.

The directors' approach to decision making

Periodic board meetings consist of a comprehensive summary of the considerations (a) to (f) above. The board consists of the Managing Director, Finance Director and four Group directors; other members of the senior management attend board meetings as necessary to ensure suitably robust discussions on important matters, including our strategy, objectives and results.

The Board composition itself is led by the shareholders who define six core leadership capabilities, which describe what it is to be a leader. These capabilities are used in the Company's recruitment, learning and development, reward, performance management, talent management, and succession planning processes. The Company expect high standards from their leadership team and has developed a set of assessment criteria designed to help all leaders meet these leadership expectations. The combination of skills of the Directors is considered suitable for the nature of the organisation. Directors update their skills, knowledge and familiarity with the Company by meeting with senior management, visiting operations, and attending appropriate internal and external seminars and training courses.

Formal delegated financial authorities ensure appropriate approval from the board and shareholders supported with business cases and advice from professional advisors and subject matter experts, where appropriate, on important matters and significant decisions that have both short and long term impacts on the Company.

Our people

The Company has a well developed structure through which it engages with employees and was highly proactive in consulting with employees through various trade union bodies and internal forums. A periodic newsletter is issued to employees, which provides updates on various matters and developments within the Company. The Company also conducts annual staff engagement surveys via a third party, with a series of follow up sessions to ensure the views of employees are heard and any appropriate action taken. The Managing Director engages with colleagues weekly through a business brief.

Maintaining high standards of business conduct including customers, suppliers and the wider community

Our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct, good governance and the minimum requirements set by our ultimate parent. In doing so this ensures we contribute to the delivery of our strategy and objectives and act responsibly with our customers, suppliers and the wider community.

Maintaining high standards of business conduct including customers, suppliers and the wider community (continued)

Developing a strong and lasting relationship with customers, suppliers and the wider community is a priority for the Company. We value the views of our stakeholders and feedback from our stakeholders is vital to ensuring that we deliver the best possible service for customers, which will enable us to deliver on the key business objectives.

A core principle for the Company is keeping stakeholders updated on business developments, to both keep them informed and seek their views on where we could deliver an even better service.

The Company builds relationships with key stakeholders, through our programme of communications and engagement. This includes:

- One-to-one meeting with MPs, and Councillors as required.
- Attendance at Party Political conferences.
- Regional roundtables with key stakeholders from business and local authorities.
- Regular one-to-one meetings with other key stakeholders, particular business organisations.
- Email updates.

Stakeholders regularly receive both oral and written updates on the successes delivered and the challenges faced by the business and key stakeholders can raise any concerns directly with our External Relations Manager, who can share this with the relevant teams to be addressed.

A key element of our stakeholder engagements is that we are open and transparent with them about the challenges we face. Therefore, in our communications and engagement, we try to ensure that we provide a fair and understandable outlook for the business, while adhering to any commercially sensitivity and reputational risk.

Our shareholders

We act responsibly toward our shareholders and endeavour to deliver a financial return to them. We have an open dialogue with our immediate shareholder and ultimate parent, providing them with regular and appropriate communications to ensure they understand our strategy, objectives and results. This open dialogue ensured that when important decisions were made, the interests of all members were fairly considered.

Post balance sheet events

Subsequent to the balance sheet date on 19 September 2020, the Company entered into a further contract variation to the Franchise Agreement, the Emergency Recovery Measures Agreement ("ERMA") with the Department for Transport ("DfT") for a period of 12 months to 19 September 2021. Under the terms of the ERMA, the DfT assumes revenue and cost risk, other than for any disallowable costs as defined by the ERMA which the Company would be liable for if incurred. The DfT also fund capital expenditure of the Company unless the capital expenditure is being funded by a third party under a previously agreed contract. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved.

Subsequent to the balance sheet date, based on the provisions of the ERMA, which was entered into on 20 September 2020, the Company has been in discussions with the Department for Transport to determine if a Termination Sum is payable for the termination of the Franchise Agreement at the end of the ERMA period on 19 September 2021. On 23 April 2021, the DfT offered the Company a sum of £90.5m payable to terminate the Franchise Agreement which was accepted by the shareholders on 13 May 2021. Given the ERMA contract and offer were not in existence at 31 March 2020, the Company cannot reflect this position in the financial statements as at 31 March 2020.

Approved by the Board on 14 May 2021 and signed on its behalf by:

....
D S Lindsay
Director

West Midlands Trains Limited

Directors' report
For the year ended 31 March 2020

The Directors present their annual 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 2020.

Dividend
No dividend was paid or proposed in the year (2019: £nil).

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

J Chaudhry (resigned 18 February 2020)

N Umezawa (resigned 21 April 2020)

A T Pilbeam (resigned 11 August 2020)

D S Lindsay

T Omori

D A Kaye (appointed 18 February 2020)

The following Director was appointed after the year end:

Y Ieda (appointed 21 April 2020)

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.

Energy and Carbon Reporting
The Company operates passenger train services across West Midlands. Rail travel plays an important part in mitigating against the ongoing global climate emergency. Therefore, alongside providing a reliable, sustainable and resilient train service we have a responsibility to mitigate and reduce our impact on the environment.

The Company manages this impact by having certified environmental and energy management systems. These systems support the overall sustainability strategy and contribute to nationwide rail industry initiatives, for example the UK Government's Net Zero Carbon target for 2050.

The Company is committed to continually improving our environmental and energy performance whilst minimising pollution and recognises our role in supporting the delivery of the Government's emission reduction targets, to meet a 68% reduction in greenhouse gas emissions by 2030, compared to 1990 emissions levels.

UK Government Conversion Factors are utilised for greenhouse gas (GHG) reporting. The Company's Energy Management system is accredited to ISO14064-1 and externally audited on an annual basis, which also allows it to comply with UK Government's Streamlined Energy and Carbon Reporting Scheme ("SECR") requirements. Since this is the first year of SECR legislation being adopted, it is not possible to publish the comparative information.

Energy and Carbon Reporting (continued)

The methodology used to collate the energy and carbon reporting figures follows guidance from ISO14064-1:2018 and in line with Environmental Reporting Guidelines including SECR guidance issued by the UK Government. Where collection of data utilises units other than kilowatt hours such as diesel consumption in litres, these figures have been converted into kilowatt hours using the DEFRA's Fuel Conversion Factors. In order to ascertain the carbon released from the energy consumption of the business, the UK Government's Greenhouse Gas Reporting Conversion Factors have been used for the relevant year.

This will be achieved through several measures including the following:

- Encouraging the modal shift to rail from less sustainable forms of transport through engagement with our communities and collaboration with other transport companies.
- Increasing sustainable and active transport to and from stations by encouraging walking and cycling to stations through offering more secure lock points for bikes and boosting cycle travel plans around our stations.
- Creating a lower carbon railway though electrification and fuel changes.
- Promoting the importance of managing biodiversity and ecosystems to our staff and stakeholders.
- Actively engaging with our suppliers to ensure the sustainability of our supply chain economically, socially and environmentally, we are accredited to ISO20400 and continue to uphold a Sustainable Procurement Policy.
- Seeking continual improvement in our performance and reporting through our environmental and energy management systems.
- Continue to evolve our Sustainability Strategy to ensure that we meet our responsibility to protect our environment and deliver a resilient transport system that can adapt to an ever-changing world.

Thus far West Midlands Trains have already:

- Started LED lighting with PIR sensors project which will be rolled out to 106 of the stations in phase 1, resulting in an estimated reduction of 3% energy consumption per annum, and reducing need for continuous maintenance as the fixtures and fittings are more resilient. During 2019, all the depots had LED lighting installed as standard.
- Renovated Train Carriage Wash Plant facilities, to improve the effectivity of the wash and reduce water consumption by 3 litres per wash.
- Begun construction work at Tyseley depot to install shore power supplies which will reduce consumption of fuel from stabling.

The data below shows the Company's greenhouse gas emissions from its operations, expressed in tonnes of CO2 emissions (tCO2e), for the financial year ended 31 March 2020:

	Tonnes of CO2e
Scope 1 Emissions (from combustion of gas and the consumption of fuel for the purposes of transport)	43,641.8
Scope 2 Emissions (resulting from purchase of electricity for its own use)	56,820.8
Total Gross emissions - tonnes of CO2e	100,462.6

Directors' report (continued)
For the year ended 31 March 2020

Energy and Carbon Reporting (continued)

The data below is the ratio of CO2e from UK operations per employee (based on average headcount) at the Company for the financial year ended 31 March 2020:

Average employees	2,900
Tonnes of CO2e per headcount employee	34.6

The data below shows the Company's energy consumption from UK operations for the financial year ended 31 March 2020, expressed in Kilowatt Hours (kWh):

	Total Kilowatt Hours
Electricity	216,735,829
Gas	9,130,536
Diesel	180,346,253
Annual quantity of energy consumed from consumption of gas, fuel for the purposes of transport and the purchase of electricity for its own use	406,212,618

Corporate governance

For the year ended 31st March 2020, under The Companies (Miscellaneous Reporting) Regulations 2019, the Company has adopted the Wates principles for large private companies as an appropriate framework when making disclosure about its corporate governance arrangements.

Each of the 6 Wates Principles has been considered individual within the context of the Company's operations. A supporting statement is set out below detailing how the Opportunity & Risk and Executive Remuneration principles have been applied. The principles of Purpose & Leadership, Board Composition, Directors Responsibilities and Stakeholder Relationships & Engagement are set out within the Section 172 statement within the Strategic Report.

Opportunity & Risk

A Board should promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

The Company operates within a Franchise Agreement with the Department for Transport and as at 31st March 2020 an Emergency measures Agreement. The Company acts to comply with the obligations of these agreements and act as a Good and Efficient Operator.

A risk register is updated regularly, quantifying the biggest internal and external risk factors facing the Company. This register is approved by the Executive Committee of the Company and the Board. Each risk is assigned an owner and mitigating actions are taken to either manage the risk or eradicate it entirely, where possible.

Executive remuneration

A Board should promote executive remuneration structures aligned to the long-term sustainable success of the Company, taking into account pay and conditions elsewhere in the Company.

The group remuneration committee considers the pay and incentive structures for senior management across the group, including the executive directors of the Company. The renumeration of the executive directors of the Company is established through a process which takes into account the same factors as the group executives. These include:

- Alignment of pay with the purpose, values and strategy of the business.
- The relationship between the directors' pay and that of the wider workforce.

The Board is committed to creating an environment at all levels in the Company which enables people to perform and develop their abilities and potential. The Board strives to ensure that Company has a diverse workplace which does not attach specific importance to age, community background or country of origin, disability, gender, nationality, political opinion, religious belief, or sexuality - that ensures that we are able to attract talented employees who will contribute to the success of the Company.

Going concern

The Directors are required to assess the availability of resources in order to meet the Company's financial obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements and have assessed the period to 31 May 2022. The Directors are also required to identify any material uncertainties that may cast doubt on the Company's ability to continue as a going concern and disclose these appropriately.

As set out in the Strategic Report (Business Review section) - Covid-19 has had a significant impact on the financial results and operations of the Company, with the Company entering into an Emergency Measures Agreement ("EMA") on 31 March 2020, which was retrospectively applied with effect from 1 March 2020 and an Emergency Recovery Measures Agreement ("ERMA") effective from 20 September 2020 for a period of 12 months to 19 September 2021. As noted previously, under the terms of the ERMA, the DfT assumes revenue and cost risk, other than for any disallowable costs as defined by the ERMA which the Company would be liable for if incurred. The DfT also funds capital expenditure of the Company unless the capital expenditure is being funded by a third party under a previously agreed contract. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved.

Subject to any potential extension of the term of the ERMA, which can be extended by 7 rail periods to 1 April 2022 at the discretion of the Secretary of State, the ERMA and also the underlying Franchise Agreement will terminate on 19 September 2021, with a Termination Sum payable. Following the termination of the ERMA and Franchise Agreement, subject to successful discussions and agreement with the DfT and the Secretary of State, the Company could transition to a directly awarded contract for a period of at least 3 years to 22 September 2024.

Directors' report (continued)
For the year ended 31 March 2020

Going concern (continued)

At the conclusion of the ERMA, the shareholders of the franchisee have a choice of either reverting to the original contract or terminating the contract. The latter option includes a financial assessment of the franchise that can result in a termination payment being made. Given the significant reductions in forecast revenue, it is believed that the original contract is no longer commercially viable. The Company has therefore entered a process to terminate the original franchise agreement with the DfT. The termination process includes a financial assessment of the outturn of the franchise if the pandemic had not occurred. If this assessment shows a loss then a payment is made to the SoS in respect of this loss. On 13 May 2021, a Termination Sum of £90.5m has now been formally agreed with the Secretary of State. Please see the Post Balance Sheet note (note 34) for further details. Following agreement of the Termination Sum, the company is eligible to enter into discussions in respect of a directly awarded National Rail Contract (NRC) under which the company will continue to deliver passenger rail services following the end of the ERMA.

The Company's ultimate shareholders are party to a Funding Deed between the Secretary of State, the Company and the ultimate shareholders, which states that the ultimate shareholders will provide the Company with funding up to their respective contingent commitment under the PCS ("Parent Company Support") Facility in order to make the Termination Sum payment.

The Directors have prepared financial forecasts for business planning and liquidity purposes, which contain a number of key judgements and assumptions, which have been used as the basis for the going concern assessment. The key judgements and assumptions applied include:

- the ERMA continues to 19 September 2021 and from 20 September 2021 the Company enters into a directly awarded contract for a period of at least 3 years, under which the Company will earn a management fee and a performance-based fee. However, the Directors note the material uncertainty in respect to this assumption as further detailed below.
- operational train service plans based on government advice on timetables to service the forecast demand.
- the levels of government support provided in order to deliver the operational train service plans.
- the ongoing operational performance in line with forecasts.
- the ongoing compliance with the ERMA.
- cash flows in line with forecasts.
- the Termination Sum being funded by the shareholders in proportions equal to their investments in the Company. This means a drawdown of £90.5m from the existing PCS facility with the understanding that any amount drawn under the PCS will not be repaid to the shareholders. On the date of signing of these financial statements, the remaining available facility under the PCS after this proposed draw down is £56.5m.

If the Company does not come to an agreement with the DfT to enter into a directly awarded NRC, the operation of services and the associated assets and liabilities would transfer to the Operator of Last Resort under the provisions of the Franchise Agreement as amended by the ERMA.

At the date of approving these financial statements, no agreement has been entered into in respect to an NRC and as such the directors consider this indicates a material uncertainty on the Company's ability to continue as a going concern, as there is a risk the Company may cease to carry on the trade of operating passenger rail services beyond 20 September 2021. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Going concern (continued)

Conclusion
As a result of the financial forecasts prepared, continued government support under an ERMA, and the potential to enter into a directly awarded NRC, albeit with regard to the material uncertainty to which the Company is exposed to on this, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing these financial statements and in preparing the financial statements they do not include any adjustments that would be required to be made if they were prepared on a basis other than going concern.

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.

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 its operations and news and events from across its network. The Company has 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.

Charitable and political contributions

The Company made charitable donations of £nil during the year (2019: £nil). 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.

West Midlands Trains Limited

Directors' report (continued)
For the year ended 31 March 2020

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 he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Approved by the Board on 14 May 2021 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 including 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 elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing 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 2020 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 34, 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 2020 and of its loss 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.

Material uncertainty related to going concern

We draw attention to note 3 to the financial statements which refers to the Directors' assessment of going concern and indicates that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. The material uncertainty relates to the company agreeing with the Department for Transportation and Secretary of State for Transportation to enter into a directly awarded contract.

Without such an agreement, the company would not have an operating activity beyond September 2021. At the date of approval of the financial statements, this agreement has not been made and this is outside of the Directors' control.

Our opinion is not modified in respect of this matter.

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.

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.

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

Other information (continued)
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 16, 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.

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.

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

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

Date: 14 May 2021

West Midlands Trains Limited

Income statement
For the year ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Revenue	5	570,165	563,036
Operating costs		(539,753)	(521,220)
Operating profit		30,412	41,816
Exceptional costs	6	(216,390)	-
Interest receivable and similar income	7	730	542
Interest payable and similar expenses	8	(7,872)	(963)
(Loss)/profit before taxation	12	(193,120)	41,395
Tax on loss	13	(2,776)	(8,543)
(Loss)/profit for the financial year		(195,896)	32,852

The above results were derived from continuing operations.

The notes on pages 25 to 61 form an integral part of these financial statements.

West Midlands Trains Limited

Statement of comprehensive income
For the year ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
(Loss)/profit for the financial year		(195,896)	32,852
Items that may be reclassified subsequently to profit or loss:			
(Losses)/gains on cashflow hedges arising during the year		(7,626)	2,613
Tax on items relating to components of other comprehensive income	13	1,377	(476)
		(6,249)	2,137
Total comprehensive expense/income for the financial year		(202,145)	34,989

The notes on pages 25 to 61 form an integral part of these financial statements.

West Midlands Trains Limited

Balance sheet
As at 31 March 2020

	Note	2020 £ 000	2019 £ 000
Non-current assets			
Intangible assets	14	1,714	5,026
Property, plant and equipment	15	12,363	19,417
Right-of-use assets	16	223,699	-
Deferred tax assets	18	2,844	-
Fuel hedge asset	25	-	2,727
		240,620	27,170
Current assets			
Inventories	19	4,957	3,735
Trade and other receivables	20	59,734	50,320
Income tax asset	13	299	-
Cash and cash equivalents	24	90,004	107,114
Fuel hedge asset	25	-	867
		154,994	162,036
Total assets		395,614	189,206
Current liabilities			
Trade and other payables	21	(114,179)	(120,749)
Lease liabilities	23	(62,090)	-
Loans and borrowings	22	-	(11,001)
Income tax liabilities	13	-	(5,283)
Fuel hedge liability	25	(1,112)	-
Provisions for liabilities	26	(208,093)	(8,236)
		(385,474)	(145,269)
Non-current liabilities			
Deferred tax liabilities	18	-	(230)
Lease liabilities	23	(169,264)	-
Fuel hedge liability	25	(2,920)	-
		(172,184)	(230)
Total liabilities		(557,658)	(145,499)
Shareholders equity			
Share capital	27	-	-
Hedging reserve	27	3,266	(2,983)
Retained earnings	27	158,778	(40,724)
Total shareholders equity		162,044	(43,707)
Total equity and liabilities		(395,614)	(189,206)

The notes on pages 25 to 61 form an integral part of these financial statements.

West Midlands Trains Limited

Balance sheet (continued)
As at 31 March 2020

The financial statements of West Midlands Trains Limited (registration number: 09860466) were approved by the Board and authorised for issue on 14 May 2021. They were signed on its behalf by:

....

D S Lindsay

Director

The notes on pages 25 to 61 form an integral part of these financial statements.

West Midlands Trains Limited

Statement of changes in equity
For the year ended 31 March 2020

	Called-up share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total shareholders equity £ 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

	Called-up share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total shareholders equity £ 000
At 1 April 2019	-	2,983	40,724	43,707
Adoption of IFRS 16 (note 2)	-	-	(3,606)	(3,606)
At 1 April 2019 (as restated)	-	2,983	37,118	40,101
Profit for the year	-	-	(195,896)	(195,896)
Other comprehensive expense	-	(6,249)	-	(6,249)
Total comprehensive loss	-	(6,249)	(195,896)	(202,145)
At 31 March 2020	-	(3,266)	(158,778)	(162,044)

The notes on pages 25 to 61 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

The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 2 to 8.

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.

The results of West Midlands Trains Limited are included in the consolidated financial statements of N.V. Nederlandse Spoorwegen, which are available from Laan van Puntenburg 100, 3511 ER, Utrecht, Netherlands.

2 Adoption of new and revised standards

Impact of initial application of other amendments to International Financial Reporting Standards ('IFRS') and Interpretations

In the current year, the Company has applied a number of amendments to International Accounting Standards ('IAS'), International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretations Committee ('IFRIC') and Interpretations issued by the International Accounting Standards Board ('IASB') that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRIC 23 'Uncertainty of Tax Treatments' (effective date 1 January 2019);
- IFRS 9 (amendments) 'Financial Instruments - Prepayment Features with Negative Compensation and modifications of financial liabilities' (effective date 1 January 2019);
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments to long-term interest in associates and joint-ventures;
- Amendments to IAS 19 'Employee Benefits' - Amendments to Plan Amendment, Curtailment and Settlements (effective date 1 January 2019); and
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date 1 January 2019).

Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

2 Adoption of new and revised standards (continued)

Impact of initial application of IFRS 16 Leases (continued)

IFRS 16 introduces new or amended requirements with respect to lease accounting. Leases introduce significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of the Company's revised accounting policy for accounting for leases under this new standard are provided in note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 April 2019.

The Company has applied IFRS 16 using the modified retrospective approach which:

- Requires the Company to recognise the modified retrospective effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project.

The project has shown that the new definition in IFRS 16 significantly changes the scope of certain contracts that meet the definition of a lease for the Company. A summary of the contracts no longer classified as leases and payments made that do not meet the definition of lease payments is set out below;

Non-capital maintenance component of rolling stock lease agreements

In certain rolling stock lease agreements, the periodic rental comprises two components which are termed, capital element and non-capital rental. The non-capital component is an amount payable for maintenance services. The Company has concluded that this component does not meet the definition of a lease under IFRS 16 on the basis that there is no identified asset.

Network Rail track access charges

Two types of track access charges are paid to Network Rail: fixed and variable. In both cases it can be concluded that track access charges do not meet the definition of a lease under IFRS 16 on the basis that the agreements do not give the Company the right to substantially all the economic benefits from the asset, the track, as other operator have access.

2 Adoption of new and revised standards (continued)

(a) Impact of the new definition of a lease (continued)

Station property lease charges

The Company has concluded that station property leases (and station access charges) do not meet the definition of a lease under IFRS 16 on the basis that Network Rail (the supplier/lessor) has the right to change the operating instructions of the station.

Depot leases

The Company has concluded that depot leases do not meet the definition of a lease under IFRS 16 on the basis that Network Rail (the supplier/lessor) has the right to direct how and for what purpose the asset is used.

(b) Accounting impact

Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Company recognises depreciation of right-of-use assets and interest on lease liabilities in the income statement.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes personal computer hardware, office furniture, mobile phones/mobile devices and coffee machines), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'administrative expenses' in the income statement.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(c) Financial impact of initial application of IFRS 16

The weighted average lessees' incremental borrowing rate applied to lease liabilities recognised in the balance sheet on 1 April 2019 is 3.51%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 March 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the balance sheet at the date of initial application.

2 Adoption of new and revised standards (continued)

Impact on retained earnings as at 1 April 2019

	2020
	£ 000
Operating lease commitments at 31 March 2019	673,565
Less - leases not considered to be lease under IFRS 16	
Station and Depot leases	(90,855)
Non-capital lease costs in rolling stock leases	(59,562)
Less - leases not commenced up to 1 April 2019	(262,250)
Discounting impact	(25,842)
Lease liabilities recognised at 1 April 2019	235,056

The Company has recognised £230,712,000 of right-of-use assets and £235,056,000 of lease liabilities upon transition to IFRS 16. A deferred tax asset of £738,000 has also been recognised on transition. The difference of £3,606,000 is recognised in retained earnings.

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.

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, except for leasing transactions that are within the scope of IFRS 16, 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.

3 Accounting policies (continued)

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.
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a),114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
- the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

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

Going concern

The Directors are required to assess the availability of resources in order to meet the Company's financial obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements and have assessed the period to 31 May 2022. The Directors are also required to identify any material uncertainties that may cast doubt on the Company's ability to continue as a going concern and disclose these appropriately.

3 Accounting policies (continued)

Going concern (continued)

As set out in the Strategic Report (Business Review section) - Covid-19 has had a significant impact on the financial results and operations of the Company, with the Company entering into an Emergency Measures Agreement ("EMA") on 31 March 2020, which was retrospectively applied with effect from 1 March 2020 and an Emergency Recovery Measures Agreement ("ERMA") effective from 20 September 2020 for a period of 12 months to 19 September 2021. As noted previously, under the terms of the ERMA, the DfT assumes revenue and cost risk, other than for any disallowable costs as defined by the ERMA which the Company would be liable for if incurred. The DfT also funds capital expenditure of the Company unless the capital expenditure is being funded by a third party under a previously agreed contract. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved.

Subject to any potential extension of the term of the ERMA, which can be extended by 7 rail periods to 1 April 2022 at the discretion of the Secretary of State, the ERMA and also the underlying Franchise Agreement will terminate on 19 September 2021, with a Termination Sum payable. Following the termination of the ERMA and Franchise Agreement, subject to successful discussions and agreement with the DfT and the Secretary of State, the Company could transition to a directly awarded contract for a period of at least 3 years to 22 September 2024.

At the conclusion of the ERMA, the shareholders of the franchisee have a choice of either reverting to the original contract or terminating the contract. The latter option includes a financial assessment of the franchise that can result in a termination payment being made. Given the significant reductions in forecast revenue, it is believed that the original contract is no longer commercially viable. The Company has therefore entered a process to terminate the original franchise agreement with the DfT. The termination process includes a financial assessment of the outturn of the franchise if the pandemic had not occurred. If this assessment shows a loss then a payment is made to the SoS in respect of this loss. On 13 May 2021, a Termination Sum of £90.5m has now been formally agreed with the Secretary of State. Please see the Post Balance Sheet note (note 34) for further details. Following agreement of the Termination Sum, the company is eligible to enter into discussions in respect of a directly awarded National Rail Contract (NRC) under which the company will continue to deliver passenger rail services following the end of the ERMA.

The Company's ultimate shareholders are party to a Funding Deed between the Secretary of State, the Company and the ultimate shareholders, which states that the ultimate shareholders will provide the Company with funding up to their respective contingent commitment under the PCS ("Parent Company Support") Facility in order to make the Termination Sum payment.

The Directors have prepared financial forecasts for business planning and liquidity purposes, which contain a number of key judgements and assumptions, which have been used as the basis for the going concern assessment. The key judgements and assumptions applied include:

- the ERMA continues to 19 September 2021 and from 20 September 2021 the Company enters into a directly awarded contract for a period of at least 3 years, under which the Company will earn a management fee and a performance-based fee. However, the Directors note the material uncertainty in respect to this assumption as further detailed below.
- operational train service plans based on government advice on timetables to service the forecast demand.
- the levels of government support provided in order to deliver the operational train service plans.
- the ongoing operational performance in line with forecasts.
- the ongoing compliance with the ERMA.
- cash flows in line with forecasts.

3 Accounting policies (continued)

Going concern (continued)

- the Termination Sum being funded by the shareholders in proportions equal to their investments in the Company. This means a drawdown of £90.5m from the existing PCS facility with the understanding that any amount drawn under the PCS will not be repaid to the shareholders. On the date of signing of these financial statements, the remaining available facility under the PCS after this proposed draw down is £56.5m.

If the Company does not come to an agreement with the DfT to enter into a directly awarded NRC, the operation of services and the associated assets and liabilities would transfer to the Operator of Last Resort under the provisions of the Franchise Agreement as amended by the ERMA.

At the date of approving these financial statements, no agreement has been entered into in respect to an NRC and as such the directors consider this indicates a material uncertainty on the Company's ability to continue as a going concern, as there is a risk the Company may cease to carry on the trade of operating passenger rail services beyond 20 September 2021. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Conclusion
As a result of the financial forecasts prepared, continued government support under an ERMA, and the potential to enter into a directly awarded NRC, albeit with regard to the material uncertainty to which the Company is exposed to on this, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing these financial statements and in preparing the financial statements they do not include any adjustments that would be required to be made if they were prepared on a basis other than going concern.

Revenue

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.

3 **Accounting policies (continued)**

Revenue (continued)

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.

Train maintenance
The Company provides train maintenance services to other train operating companies. 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.

3 Accounting policies (continued)

Revenue (continued)

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.

Rental income
Rental income represents income from renting out station access to third party retail outlets. 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.

Franchise subsidies - (Government grants and subsidy income)
Government grants and subsidies receivable for tendered services and concessionary fare schemes and financial support receivable from Department for Transport are included in revenue and accounted for in accordance with IAS 20.

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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

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.

3 Accounting policies (continued)

Property, plant and equipment (continued)

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 rate and method
Land and buildings	5 to 7 years straight line
Plant and machinery	3 to 10 years straight line

The carrying values of plant and machinery are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 April 2019

Initial application

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as personal computer hardware, office furniture, mobile phones/mobile devices and coffee machines). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- The amount expected to be payable by the lessee under residual value guarantees;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet and is spilt between current and non-current based on the profile of the liability.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

3 Accounting policies (continued)

Leases (continued)
The Company remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

Extension options
In the initial valuation of each leases, in accordance with IFRS 16, we consider the existence of any extension options within the lease agreements and whether the criteria as set out under IFRS 16 are met such that any such extension periods are accounted for, i.e.

(a) is within the control of the lessee to extend the lease term; and

(b) whether the lessee is reasonably certain to exercise an option to extend.

The Company continually assess the terms and conditions of each contract in light of ongoing operational changes. In order for a contract extension to be recognised, the Company consider if one of the following conditions have been satisfied:

- Whether or not a contract variation is signed with the lessor confirming a new contract end date;
- If no contract variation is in place, the existing contract must contain an option to extend, which is in the control of the Company to exercise, and

which the Company is reasonably certain it will exercise. In order to demonstrate that the Company is reasonably certain to exercise, it must assess;

(a) the importance of that underlying asset to our operations and that there is a no suitable alternatives.

(b) In the event there is no contract variation in place and there is no option within the agreement to extend the contractual term, then no extension period should be recognised.

Right-of-use asset
The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right of use asset, the costs are included in the related right of use asset.

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset, the related right of use asset is depreciated over the useful life of the underlying asset.

The depreciation starts at the commencement date of the lease.

The right of use assets are presented as a separate line in the Balance Sheet.

The Company applies IAS 36 to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

3 Accounting policies (continued)

Leases (continued)

Right-of-use asset (continued)

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right of use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Administrative expenses' in the profit and loss account.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The financial impact of transition has been presented in note 2.

Policies applicable prior to 1 April 2019

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.

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.

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

Amortisation expenses are included in the income statement under operating costs.

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.

3 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash held at bank and in hand.

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.

3 Accounting policies (continued)

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.

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 income statement.

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 Balance Sheet.

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.

Hedge effectiveness

In accordance with IFRS 9, the Company assesses the effectiveness of our commodity swap fuel contracts at each statutory year end.

3 Accounting policies (continued)

Financial instruments (continued)

Hedge effectiveness (continued)
In accordance with the requirements of IFRS 9 we have considered the following:

(1) Whether an economic relationship exists. The nature of the economic relationship between the spot price and the hedging instrument is appropriately captured in the hedge documentation we have in place.

(2) That credit risk does not dominate value changes. At the end of the reporting period we have considered the credit risk and that of the counterparties we have entered into hedge contracts with. There are no significant changes in the credit risk foreseen in the Company or the respective counterparties.

(3) Whether the designated hedge ratio is consistent with the risk management strategy.

We have not identified a material ineffectiveness in the hedge in the period following this review.

Trade and other 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.

Financial assets
Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire.

Financial liabilities
Financial liabilities are classified as either financial liabilities at fair value through profit and loss ('FVTPL') or other financial liabilities.

Trade and other 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.

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

3 Accounting policies (continued)

Financial instruments (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.

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.

Critical judgements in applying the Company's accounting policies
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

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.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. Please see the Directors' report, future developments for the background to the following key judgements.

Pension and other post-employment benefits
The costs of defined benefit pension 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 assumptions are based on the census data for statutory funding results of the actuarial valuation of the Scheme as at 31 December 2020. See note 32 for further details. The directors do not consider there to be any other significant judgements or estimates used in the preparation of the financial statements; other than those mentioned above.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment

Under IAS 36, West Midlands Trains Limited is considered as one cash generating unit. The rationale is that the business is managed on this basis by the board of directors and the shareholders review the business on this basis. There are no cashflows attributed to individual assets and as such all assets as assessed as one. This is consistent with prior years.

The impact of the coronavirus pandemic in the UK has been significant and unprecedented. The World Health Organisation ("WHO") announced coronavirus as a global health emergency on 30th January 2020, with the first cases of coronavirus in the UK confirmed on 31st January 2020. During February, the number of confirmed cases in the UK started to rise. On 23rd March 2020, the Government introduced widespread social distancing and lockdown procedures for the UK and instructed people not to use public transport unless they were key workers. This led to a significant reduction in public transport usage, with the Company operating reduced timetables and with significantly less patronage. While passenger revenues started to recover during the summer and early autumn, these fell significantly as further local and national restrictions were introduced.

While the EMA and ERMA contracts provide a level of protection compared to the position if West Midlands were solely operating under the terms of the existing franchise agreements, it has resulted in a significant change in the cashflows, with the reduced earnings of an EMA/ERMA compared to those under the franchise agreement and also the reduced contractual term as the franchise agreements are terminating 4 to 5 years early. A further condition of the ERMA was that each TOC would potentially be liable to pay a Termination Sum to the DfT and depending on certain factors a Net Asset Payment.

Due to the significant Estimated Termination Sum and consequential Net Asset Payment notified by the DfT on 21st October 2020, the value in use of each entity is negative if these amounts were not to change on final determination. As such the recoverable amount of an asset is its fair value less cost to disposal.

In determining the fair value of the fixed assets within each CGU, there are certain provisions in the Franchise Agreement and subsequently the ERMA, which specify the value or calculation methodology to determine the value of certain fixed assets. However, these contractual provisions do not apply to all assets and given there is no quoted price in an active market for an asset base identical to West Midlands, the fair value assessment for the remaining assets is subject to significant judgement and estimate and as such the fair value measurement is categorised within Level 3 of the fair value hierarchy.

The key assumptions on which management has based its determination of fair value include:

- ***Residual value assets ("RV Assets")*** - the Franchise Agreement sets out any assets where the Successor Operator pays a specified value to the incumbent on the franchise end date. These values have been used when determining any assets specified as RV Assets within the Franchise Agreement.
- ***Primary Franchise Assets ("PFAs")*** - Under the terms of Franchise Agreement, any asset that was a PFA transferred to the Successor Operator at £nil value. However, under the ERMA, a value at the end of the ERMA, which is 4 or 5 years earlier applies to PFAs. The value is equivalent to the cost of the asset less any subsidy funding of such asset and less any depreciation.
- ***Separately identifiable and saleable assets*** - the fair value for a various assets is their depreciated cost at the end of the ERMA. These relate to assets which are typically sold to a Successor Operator for which the incumbent typically receives the net book value of the asset. This position has been determined based on historical transactions for entities within the Group.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment (continued)

- ***Project related assets*** - during the course of each franchise there are various projects which an entity commits to do under the terms of the Franchise Agreement, including developing certain stations or depots, which it does not hold legal title to but uses under access and lease agreements. While the entity would generate economic benefit from these during the original franchise term, given the projects relate to spend on assets which the entity does not hold legal title, then the entity does not have the ability to sell these assets to a Successor Operator. Any project related assets which cannot be separated from the underlying station or depot asset and sold have thus been assessed as a £nil fair value.

Onerous contract provision

As set out in the Strategic report, we have considered it appropriate to recognise an onerous contract provision in relation to the original franchise. Please refer to the Strategic report.

5 Revenue

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

	2020 £ 000	2019 £ 000
Passenger income	383,850	369,437
Franchise subsidies	119,629	133,389
Other operating income	49,895	54,444
Rental income	16,791	5,766
	570,165	563,036

6 Exceptional costs

	2020 £ 000	2019 £ 000
Exceptional expense in relation to onerous contracts (note 26)	200,400	-
Impairment loss of other intangibles (note 14)	3,758	-
Impairment loss on property, plant and equipment (note 15)	12,232	-
	216,390	-

7 Interest receivable and similar income

	2020 £ 000	2019 £ 000
Interest income on bank deposits	636	462
Net interest income on pension scheme (note 32)	94	80
	730	542

8 Interest payable and similar expenses

	2020 £ 000	2019 £ 000
Interest on bank overdrafts and borrowings	-	442
Interest payable to related undertakings	344	521
Interest on lease liabilities	7,528	-
	7,872	963

9 Staff costs

The aggregate remuneration comprised:

	2020 £ 000	2019 £ 000
Wages and salaries	144,315	127,837
Social security costs	15,477	13,976
Pension costs, defined benefit scheme	9,634	8,734
	169,426	150,547

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

	2020 No.	2019 No.
Drivers	798	776
On-train staff	600	580
Station staff	560	563
Fleet maintenance staff	345	311
Management and administrative	597	499
	2,900	2,729

10 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2020 £ 000	2019 £ 000
Remuneration	530	422
Company pension contributions	25	40
	555	462

The number of Directors for whom retirement benefits are accruing under defined benefit and defined contribution schemes amounted to 3 (2019: 2).

10 Directors' remuneration (continued)

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:

	2020 £ 000	2019 £ 000
Remuneration	326	264
Company contributions to money purchase pension schemes	9	27
	335	291

11 Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2020 £ 000	2019 £ 000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	226	208
Other non-audit services	12	8
	238	216

12 (Loss)/profit before taxation

(Loss)/profit has been arrived at after charging/(crediting):

	2020 £ 000	2019 £ 000
Staff costs (note 9)	169,426	150,547
(Gain)/loss on disposal of property, plant and equipment	(84)	43
Operating lease expense - stations	10,007	11,108
Operating lease expense - rolling stock	29,950	85,279
Amortisation expense (note 14)	616	642
Owned assets depreciation expense (note 15)	3,747	2,670
Impairment loss of other intangibles	3,758	-
Impairment loss on property, plant and equipment	12,232	-
Auditor's remuneration (note 11)	238	216
Network rail access charges	64,284	85,421
Depreciation on right of use assets (note 16)	64,055	-
Exceptional expense in relation to onerous contracts	200,400	-

13 Taxation

Tax charged for the year in the income statement:	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	3,917	8,809
Adjustments in respect of prior periods	(182)	115
Total current income tax	3,735	8,924
Deferred taxation		
Current year	(1,010)	(393)
Adjustment in respect of prior periods	163	(29)
Effect of changes in tax rates	(112)	41
Total deferred taxation (note 18)	(959)	(381)
Tax expense in the income statement	2,776	8,543

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2019: higher than the standard rate of corporation tax in the UK) of 19% (2019: 19%).

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

	2020 £ 000	2019 £ 000
(Loss)/profit before tax	(193,120)	41,395
Corporation tax at standard rate of 19% (2019: 19%)	(36,693)	7,865
Effects of:		
Adjustments in respect of prior periods	(19)	87
Expenses not deductible	39,600	541
Tax rate differential	(112)	41
Exempt amounts	-	9
Tax expense for the year	2,776	8,543

Factors that may affect future tax charges

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 31 March 2020 continue to be measured at 19%. If all of the deferred tax was to reverse at the amended 25% rate the impact on the closing deferred tax position would be to increase the deferred tax asset by £925,000.

13 Taxation (continued)

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	2020 £ 000	2019 £ 000
Deferred tax:		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges		
Tax on items relating to components of other comprehensive income	(1,377)	444
Tax on items relating to prior year adjustments of other comprehensive income	-	32
Total income tax recognised in other comprehensive income	(1,377)	476

14 Intangible assets

	Software costs £ 000	Assets under development £ 000	Pre-contract costs £ 000	Total £ 000
Cost or valuation				
At 1 April 2019	991	-	4,868	5,859
Additions	-	1,714	-	1,714
Disposals	-	-	(775)	(775)
At 31 March 2020	991	1,714	4,093	6,798
Amortisation				
At 1 April 2019	25	-	808	833
Amortisation charge	151	-	465	616
Disposals	-	-	(123)	(123)
Impairment	815	-	2,943	3,758
At 31 March 2020	991	-	4,093	5,084
Carrying amount				
At 31 March 2020	-	1,714	-	1,714
At 31 March 2019	966	-	4,060	5,026

15 Property, plant and equipment

	Assets under construction £ 000	Land and buildings £ 000	Plant and machinery £ 000	Total £ 000
Cost or valuation				
At 1 April 2019	5,004	7,209	10,519	22,732
Additions	12,013	-	-	12,013
Disposals	-	-	(3,303)	(3,303)
Transfers	(10,461)	276	10,185	-
At 31 March 2020	6,556	7,485	17,401	31,442
Depreciation				
At 1 April 2019	-	486	2,829	3,315
Charge for the year	-	1,149	2,598	3,747
Disposals	-	-	(215)	(215)
Impairment	1,463	3,990	6,779	12,232
At 31 March 2020	1,463	5,625	11,991	19,079
Carrying amount				
At 31 March 2020	5,093	1,860	5,410	12,363
At 31 March 2019	5,004	6,723	7,690	19,417

16 Right-of-use assets

	Rolling stock £ 000	Property £ 000	Plant and equipment £ 000	Vehicles £ 000	Total £ 000
Cost					
Recognition on initial adoption of IFRS 16	300,654	4,925	140	-	305,719
Additions	52,600	674	3,257	511	57,042
At 31 March 2020	353,254	5,599	3,397	511	362,761
Depreciation					
Recognition on initial adoption of IFRS 16	74,458	522	27	-	75,007
Charge for the year	63,196	603	184	72	64,055
At 31 March 2020	137,654	1,125	211	72	139,062
Net book value at 31 March 2020	215,600	4,474	3,186	439	223,699

17 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.

18 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:

	2020 £ 000	2019 £ 000
Brought forward as at 1 April	230	135
Impact of IFRS 16 transition	(738)	-
	(508)	135
Deferred tax credit in income statements for the period	(1,124)	(352)
Deferred tax charge/(credit) in income statements in respect of prior periods	165	(29)
Deferred tax (credit)/charge in Other Comprehensive Income for the period	(1,377)	444
Deferred tax charge in Other Comprehensive Income in respect of prior periods	-	32
Deferred tax (liability)/asset as at 31 March	(2,844)	230

We have assessed the recoverability of the deferred tax asset and are satisfied that the balance is recoverable.

19 Inventories

	2020 £ 000	2019 £ 000
Engineering spare parts and fuel	4,434	3,735
Uniform stocks	523	-
	4,957	3,735

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

The value of inventory expensed in the income statement during the year was £16,300,000 (2019: £21,360,000).

20 Trade and other receivables

Amounts falling due within one year:	2020 £ 000	2019 £ 000
Trade receivables	11,914	6,484
Amounts owed by group undertakings	20	-
Other receivables	3,426	21
Social security and other taxes	4,532	5,689
Prepayments and accrued income	39,842	38,126
	59,734	50,320

21 Trade and other payables

	2020 £ 000	2019 £ 000
Trade payables	56,675	46,914
Amounts due to group undertakings	4,566	839
Social security and other taxes	7,868	7,206
Deferred income	15,487	34,710
Other payables	10,781	8,987
Deferred season ticket income	16,643	19,293
Accruals	2,159	2,800
	114,179	120,749

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, repayable on demand and bear no interest.

22 Loans and borrowings

	2020 £ 000	2019 £ 000
Current liabilities		
Loans due to group undertakings (NS Groes N.V.)	-	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 10 December 2020. The loans, which bore fixed interest of 4% rate per annum, were repaid in full on 1 April 2019.

23 Lease liabilities

	2020 £
Maturity analysis:	
Due up to one year	67,669
Due between one and five years	143,038
Due after five years	38,494
	249,201
Less: discounted interest	(17,847)
	231,354
Analysed as:	
Non-current	169,264
Current	62,090
	231,354

The Company does not face a significant liquidity risk with regard to its lease liabilities.

The total cash outflow for leases during the year is £68,272,487.

The following fleet have extension clauses within their leases that allow the lessee to extend length of the lease if required:

- Class 319 - the extension option has been exercised

The Company assess the need for extensions by considering the anticipated availability of the replacement fleet, and the likelihood of potential delays in its rollout or cascade.

24 Cash and cash equivalents

Included within cash at bank is an amount of £90.0m (2019: £85.9m) held, which cannot be distributed by means of dividend in order to maintain the Company's liquidity commitments under the Franchise Agreement with the DfT and subsequently the "Emergency Measures Agreement".

25 Financial instruments

	2020 £ 000	2019 £ 000
Non-current assets		
Fuel hedge asset	-	2,727

	2020 £ 000	2019 £ 000
Current assets		
Fuel hedge asset	-	867

	2020 £ 000	2019 £ 000
Current liabilities		
Fuel hedge liability	1,112	-

	2020 £ 000	2019 £ 000
Non-current liabilities		
Fuel hedge liability	2,920	-

The commodity swap contracts that were put in place in 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.

Commodity swap contracts were put in place in 2017 between West Midlands Trains Limited and HSBC Bank plc. During the year a further commodity swap contract was put in place with Misui Bussan Commodities Ltd.

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.

26 Provisions

	CLE Provision	Dilapidations	Passenger insurance provision	Annual leave provision	Onerous contracts provision	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2019	**3,927**	**2,350**	**1,801**	**158**	**-**	**8,236**
Provided in the year	6,098	-	1,947	220	200,400	208,665
Utilised in the year	(4,961)	-	(1,671)	(158)	-	(6,790)
Releases	-	(2,018)	-	-	-	(2,018)
At 31 March 2020	**5,064**	**332**	**2,077**	**220**	**200,400**	**208,093**
Analysed as:						
Current	5,064	332	2,077	220	200,400	208,093
	5,064	**332**	**2,077**	**220**	**200,400**	**208,093**

Central London Employment ("CLE")
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.

During the year, a review of engineering provisions was carried out and £2,018,000 was released.

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

26 Provisions (continued)

Onerous contracts provision

As at 31 March 2020, the Company was operating under the terms of the Franchise Agreement as varied by the EMA. Following the expiry of the EMA term on 20 September 2020, the Company was due to revert to the terms of the underlying Franchise Agreement. However as noted in the Business Model section the Company did not revert to the Franchise Agreement and subsequently agreed the ERMA variation to the Franchise Agreement, effective from 20 September 2020. At the conclusion of the ERMA on 19 September 2021, the Company has a choice of either reverting to the terms of the Franchise Agreement or entering into a contract termination process. The process aims to establish whether a profit or loss would have been made for the contract term had Covid-19 not occurred. If a future loss would have been made then a Termination Sum is payable.

Given the significant and unprecedented impact of Covid-19 on the financial results of the Company, management has carried out an onerous contract review at the balance sheet date and concluded that the Franchise Agreement is not commercially viable and the unavoidable costs of meeting the obligations under the Franchise Agreement, as varied by the EMA, for the period to the end of the franchise term in 2026, exceed the economic benefits expected to be received under it. The contractual obligations of the ERMA have not been considered in this assessment as the ERMA variation did not exist at the balance sheet date. In accordance with IAS 37, an onerous contract provision of £200.4m has been recognised within these financial statements, which is the estimated compensation payable to exit the contract. This is based on information available at 31 March 2020 and represents the lower of the estimated cost of fulfilling the contract, being the Franchise Agreement as varied by the EMA, and the compensation payable to exit the contract.

In arriving at this estimate management has considered publicly available information for similar transactions in the industry, up to 31 March 2020, when franchise agreements have terminated early, where outstanding Parent Company Support facilities were drawn, the Performance Bond called and the entity's residual net assets paid to the Department for Transport.

Subsequent to the balance sheet date, based on the provisions of the ERMA, which was entered into on 20 September 2020, the Company has been in discussions with the Department for Transport to determine if a Termination Sum is payable for the termination of the Franchise Agreement at the end of the ERMA period on 19 September 2021. On 23 April 2021, the DfT offered the Company a sum of £90.5m payable to terminate the Franchise Agreement, which was approved by the shareholders on 13 May 2021. Given the ERMA contract and offer were not in existence at 31 March 2020, the Company cannot reflect this position in the financial statements as at 31 March 2020.

27 Equity

Authorised

	2020	2019
	£	£
1 Ordinary share of £1 each	1	1

27 Equity (continued)

Allotted, called up and fully paid

	2020	2019
	£	£
1 Ordinary share of £1 each	1	1

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

The Company's other reserves are as follows:

Retained earnings
The retained earnings 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.

28 Capital commitments

The total value of leases which have not yet commenced, but to which the Company is committed is £242.2m (2019: £5.3m).

29 Non-capital commitments

Non-capital commitments:
At the balance sheet date the Company had outstanding commitments for non-capital commitments for which IFRS 16 does not apply, which relate to, station and depot access agreements and non-capital elements of Rolling Stock agreements as follows:

	2020	2019
	£ 000	£ 000
Within one year	42,027	-
In two to five years	153,620	-
In over five years	34,858	-
	230,505	-

29 Non-capital commitments (continued)

Operating leases:

At the previous balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which relate to, station and depot access agreements and non-capital elements of Rolling Stock agreements as follows:

	2019 £ 000
Within one year	91,315
In two to five years	385,236
In over five years	197,014
	673,565

Operating lease agreements where the Company is the lessor

The Company leases office and retail spaces at its stations

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

	2020 £ 000	2019 £ 000
Within one year	1,384	9,664
More than one year	1,211	-
	2,595	9,664

30 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 2020 was £15m (2019: £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 2020 was £20.5m (2019: £23.9m).

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 2020 was £74m on a 70% Abellio, 15% Mitsui and 15% East Japan Railway Company (2019: £74m).

Notes to the financial statements (continued)
For the year ended 31 March 2020

31 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 from/ to Related Parties
	£ 000	**£ 000**	**£ 000**
Abellio Transport Holdings Limited	67	3,441	1,074
Abellio London Limited	-	7,710	3,146
Abellio B.V.	-	450	1
Abellio East Anglia Limited	-	182	101
Abellio Scotrail Limited	-	13	9
Abellio East Midlands Limited	-	115	(20)
	67	11,911	4,311

The Company hold a hedge relationship with Mitsui & Co Ltd. The value outstanding at 31 March 2020 was £469,000.

32 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. The Company's total pension costs amount to £9.6m during the current reporting year (2019: £8.5m). The pension costs have been grouped under administrative expenses.

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 scheme's 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% (2019: 7.93%) for employees and 11.90% (2019: 11.90%) for employers.

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of earnings increase would be 2.6% per annum and the rate of inflation would be (RPI/CPI) 2.40%/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.

32 Retirement benefits (continued)

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.

The valuations used have been based on the most recent actuarial valuation at 31 March 2020 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:.

	2020		2019	
	Growth Pooled fund	Illiquid Growth Pooled fund	Growth Pooled fund	Illiquid Growth Pooled fund
	%		%	
Private Equity	-	91.22	-	84.41
Direct Investments	-	10.30	-	6.85
Property	12.59	-	12.19	-
Absolute Return Strategies	5.95	-	5.76	-
Global Equities	58.35	-	59.64	-
Global Credit/Fixed Income	8.19	-	13.01	-
Cash	14.92	(1.52)	9.40	8.74
	100.00	100.00	100.00	100.00

32 Retirement benefits (continued)

Net defined benefit position

	2020 £ 000	2019 £ 000
Fair value of scheme assets	517,998	511,152
Present value of scheme liabilities	(733,755)	(705,879)
Franchise adjustment	129,454	116,836
Defined benefit obligation	(86,303)	(77,891)
Members' share of deficit	86,303	77,891
Deficit in the scheme	-	-

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

An analysis of the amount charged to profit before taxation is as follows:

	2020 £ 000	2019 £ 000
Current service cost - employer	19,348	16,616
Administrative expenses - employer	2,567	2,074
Interest income on pension scheme assets	(7,996)	(7,830)
Interest on franchise adjustment	(3,038)	(2,880)
Interest expense on defined benefit obligation	10,940	10,630
Franchise adjustment	(12,283)	(9,956)
Amount charged in arriving at the profit for the financial year	9,538	8,654

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

	2020 £ 000	2019 £ 000
Gain from changes in demographic assumptions	(5,564)	(16,126)
Actuarial (gain)/loss arising from changes in financial assumptions	(6,036)	44,126
Loss/(gain) on scheme assets excluding interest income	7,097	(26,366)
Loss/(gain) on change in members' share	1,801	(654)
Loss/(gain) on franchise adjustment	2,702	(980)
Total re-measurement recognised in the Statement of comprehensive income	-	-

32 Retirement benefits (continued)

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

	2020 £ 000	2019 £ 000
Fair value of scheme assets at 1 April	511,152	467,799
Interest income - employer	7,996	7,830
Interest income - employee	5,331	5,220
Cash contributions - employer	9,540	8,654
Cash contributions - employee	6,212	5,600
Benefits paid	(10,857)	(6,860)
Administration expense - employer	(2,567)	(2,074)
Administration expense - employee	(1,712)	(1,383)
(Loss)/gain on scheme assets excluding interest income	(7,097)	26,366
Fair value of schemes assets at 31 March	517,998	511,152

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.

The defined benefit obligation is £518m (2019: £511m) from plans that are wholly or partly funded.

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

	2020 £ 000	2019 £ 000
Defined benefit obligation at 1 April	705,880	639,500
Current service cost - employer	19,348	16,616
Current service cost - employee	12,751	10,907
Interest on benefit obligation - employer	10,940	10,630
Interest on benefit obligation - employee	7,293	7,087
Benefits paid	(10,857)	(6,860)
Gain from changes in demographic assumptions	(5,564)	(16,126)
Remeasurements - change in financial assumptions	(6,036)	44,126
Defined benefit obligation at 31 March	733,755	705,880

32 Retirement benefits (continued)

The following assumptions have been used:

	2020	2019
Rate of increase in salaries	2.00%	2.60%
Rate of increase in pensions	2.00%	2.00%
Discount rate	2.45%	2.60%
Inflation assumption	2.00%	2.00%

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 5.67%/increase by 6.00%
Inflation assumption	Increase/decrease by 25 bps	Increase by 6.06%/decrease by 5.69%
Rate of salary increases	Increase/decrease by 25 bps	Increase by 1.58%/decrease by 1.56%
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 £9.4m (2019: £9.3m).

33 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 N.V. Nederlandse Spoorwegen, a Company incorporated in The Netherlands. The registered office address of N.V. 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.

34 Post balance sheet events

Subsequent to the balance sheet date on 19 September 2020, the Company entered into a further contract variation to the Franchise Agreement, the Emergency Recovery Measures Agreement ("ERMA") with the Department for Transport ("DfT") for a period of 12 months to 19 September 2021. Under the terms of the ERMA, the DfT assumes revenue and cost risk, other than for any disallowable costs as defined by the ERMA which the Company would be liable for if incurred. The DfT also fund capital expenditure of the Company unless the capital expenditure is being funded by a third party under a previously agreed contract. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved.

34 Post balance sheet events (continued)

Subsequent to the balance sheet date, based on the provisions of the ERMA, which was entered into on 20 September 2020, the Company has been in discussions with the Department for Transport to determine if a Termination Sum is payable for the termination of the Franchise Agreement at the end of the ERMA period on 19 September 2021. On 23 April 2021, the DfT offered the Company a sum of £90.5m payable to terminate the Franchise Agreement which was accepted by the shareholders on 13 May 2021. Given the ERMA contract and offer were not in existence at 31 March 2020, the Company cannot reflect this position in the financial statements as at 31 March 2020.