Registration number: SC328826 (Scotland)

ScotRail Trains Limited

Annual report and statutory financial statements

for the year ended 31 March 2023

ScotRail Trains Limited

Contents

ScotRail Trains Limited

Company information

Directors	Alexander J. Hynes Carolyn J. Griffiths David M. Lister David Lowrie David A. Simpson Derek F. Marchant Emma J. Dixon Joanne H. Maguire John MacQuarrie Julie Dale Lesley A. Kane
Company secretary	Emma J. Dixon
Registered office	Atrium Court 50 Waterloo Street Glasgow Scotland G2 6HQ
Bankers	Royal Bank of Scotland PLC 36 St Andrew Square Edinburgh EH2 2AD
Independent auditor	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 141 Bothwell Street Glasgow G2 7EQ

ScotRail Trains Limited

Statutory background
For the year ended 31 March 2023

Statutory background

On 1 April 2022, ScotRail services transferred into ScotRail Trains Limited (the 'Company') under public control and ownership. The Company is owned and overseen by Scottish Rail Holdings Limited ('SRH'), which is an arm's length company owned and controlled by the Scottish Government. Prior to this date, the Company did not trade.

The Company operates trains and manages stations primarily in Scotland. The Company's head office is in Glasgow, and there is also a network of stations and depots primarily throughout Scotland.

Strategic report
For the year ended 31 March 2023

The Directors present their Strategic report and the audited financial statements of the Company for the year ended 31 March 2023.

Business model

The Company operates under a Grant Agreement with the Scottish Government and SRH. The contract commenced on 1 April 2022. The Grant Agreement has a Final Expiry Date of 31 March 2032. Prior to this date, the Company did not trade. The Company operates trains and manages stations, working with key partners, including Network Rail, who maintain and control the railway infrastructure, and rolling stock companies who own the trains that are leased by the Company.

Business review and results

The reporting year of this Annual report and Statutory Financial Statements is the twelve-month period commencing on 1 April 2022, ending 31 March 2023.

Scottish Ministers announced on the 17 March 2021, to the Scottish Parliament, that from 1 April 2022, ScotRail services would transfer into public control and ownership. This was a result of the Scottish Government's decision to not award a franchise agreement to another operator on expiry of the Abellio ScotRail Ltd ('ASR') franchise on 31 March 2022. In the circumstances, the government's duty to run ScotRail services through what is known as the 'Operator of Last Resort' under section 30 of the Railways Act 1993 was applied.

An agreement is in place between the Scottish Ministers and SRH which sets out the broad framework within which SRH and its subsidiaries will operate. This is known as the Framework Agreement. SRH acts as the owning group of the Company and provide separation between Transport Scotland as strategic policymakers and the direct management of train service delivery for the Company.

As noted above, the Company operates under a Grant Agreement with SRH. Upon commencement of the Grant Agreement, the Company acquired assets and liabilities transferred from ASR via the Net Asset Statement ('NAS') settlement. This resulted in an opening net asset position of £5.1m (see note 25). Assets and liabilities purchased from ASR included items such as tangible and intangible non-current assets, inventory, prepayments, cash floats, accruals, and deferred income.

As the Company operates under a Grant Agreement, grant income was received throughout the year from SRH to fund all costs, net of revenue generated.

The first year of public ownership was a success for the Company, with increased revenue and passenger numbers compared with the final year of trading under the previous operator.

Financial results include revenue for the year of £972.9m, which included £691.7m of grant income from SRH and passenger revenue income of £265.5m. The loss after taxation for the year was £0.1m. The Company would ordinarily expect to report no profit or loss in a trading period due to its activities being fully subsidised by the Grant Agreement. The loss in the year arose solely as a result of accounting adjustments, principally the application of the effective interest rate method to group borrowings as more fully explained in note 18.

The Company's net assets, in the Balance Sheet, at the end of the year amounted to £1.2m.

Business review and results (continued)
Significant work was carried out during the year to grow revenue, promote the railway, and invest in the future. This included:

- Multiple fare offers for customers to encourage more people to use the railway, including half-price travel and discounts for students. These tactical initiatives were overlaid with a hugely successful 'Your Ticket Goes Further Than You Think' brand campaign which was seen more than ten times by 90% of the adult population living in the catchment of the ScotRail network.
- Successful delivery of a massive alternate transport plan to keep customers moving for eight weeks whilst Network Rail delivered £32m of improvement works to the tunnels, track and overhead lines on the Argyle Line through the city centre between Rutherglen and Exhibition Centre stations.
- Following the first ever national rail timetable consultation, held in Autumn 2021, a new 'Fit for the Future' timetable was introduced in May 2022 adding nearly 130 more services each weekday. New timetables were introduced in Central, East, and Southwest Scotland to improve reliability, the factor rail customers value most, and better meet the needs of post pandemic travel as well as providing the taxpayer with value for money. More services were added to the timetable in December 2022 improving connectivity to both Edinburgh and Glasgow from Lanarkshire and West Lothian.
- Inclusion of the Company in the signatories to a new digital charter to help raise the profile of computing science amongst young people.
- Dunfermline Town station was officially renamed Dunfermline City, with His Majesty King Charles visiting the city to mark the historic change.
- The redevelopment of Aberdeen station, which saw significant changes to the look and feel of the station, which has been in the heart of Aberdeen city centre for more than 150 years. Improvements included the relocation of the ticket office, new customer information screens, new staff accommodation, and additional operational areas, helping to deliver an enhanced customer experience.
- Worked to address the gender stereotypes in the rail industry which included an innovative partnership to help with the production of the book 'My Mummy is a Train Driver'.

Key performance indicators ('KPIs')
The Company measures its performance using a balanced scorecard of indicators.

Safety
The safety of the Company's employees and customers is its first priority under the mission of 'Everyone Home Safe Every Day'.

Staff lost time incidents resulting in absence and passenger accidents, at 33 and 375 respectively, both illustrate a declining trend when compared to ScotRail services operated in the prior year. The Company complies with the rigorous safety management system and standards required of the rail sector. Its safety performance is proactively managed at all levels of the company engaging the staff and their trade unions representatives and is overseen by the Board and its Safety, Health and Environment Committee.

The Company continues to work with partners British Transport Police, Network Rail Scotland, SRH, Transport Scotland, and other key stakeholders, to ensure employees and customers can travel with confidence.

The Company expanded on the size of the Travel Safe Team, recruiting for 19 new posts taking the total team to 28 posts. The team is a reactive resource with the ability to quickly focus on emerging anti-social behaviour hot spots, actively engaging with individuals and groups on the impact of unsafe behaviours when on or around the railway.

Key performance indicators ('KPIs') (continued)

Operational performance

Operational performance is measured using the Public Performance Measure ('PPM') on a rolling 12 month moving annual average ('MAA') basis. PPM is achieved if a service reaches its final destination within four minutes and 59 seconds of its advertised time, having called at all timetabled stops. During the twelve-month year ended 31 March 2023 the Company's PPM MAA was 89.4%.

This was a very challenging year for performance, mainly due to the industrial relations issues for the Company and Network Rail. This presented multiple challenges throughout the year, with the impact of disruptions having to be managed across different groups of staff and organisations at different times. This impacted the availability of staff to operate services as well as the availability of our fleet. Reduced timetables were introduced so customers could have confidence in the level of service and to keep the number of short notice cancellations as low as possible.

The Company's PPM compares well with the UK MAA as published by the Office of Rail and Road. The Company continued to see improvements into the new financial year.

Financial performance

The financial performance of the Company is assessed by revenue achieved, and grant payments required. The results for the year are set out within the business review and results section. The Company recognised grant income to cover net expenditure of £691.7m under the terms of the Grant Agreement. This was favourable to the grant income allocation.

Passenger revenue in the year was £265.5m, an increase of 43% compared to the prior year under the previous ScotRail operator. Journeys also increased by 36% to 63.7m when compared to the prior year under the previous operator.

People

People are vital to the success of the Company. By investing in the skills, training, and engagement of its staff, the Company seeks to have a motivated, productive, and proud workforce.

Following a challenging start to the year, employee attendance improved, with absence reducing to 6.6% from 7.9%. An improving trend was experienced in the second half of the year, and the Company expects this to continue into 2023/24.

The Company continues to create a more diverse and inclusive workforce through the delivery of inclusion and well-being roadshows to staff across the country. The long-term plan is to make the diversity of the Company reflective of the communities it serves.

In-person safety briefings were introduced for frontline colleagues for the first time since before the pandemic. This included updated information on key safety issues and an opportunity for frontline staff to meet with, and question, members of the senior leadership team.

An employee engagement survey was not undertaken during the period covered by these financial statements due to it being the first year of operation of the Company. A new survey has been designed and was launched in the first quarter of 2023/24.

The Company was recognised as a 'Top Employer' in the UK through the Top Employers Institute programme. Being certified as a 'Top Employer' showcases an organisation's dedication to a better workplace and exhibits this through excellent HR policies and people practices. This represents the fourth year in a row in which ScotRail has been recognised with this award.

Key performance indicators ('KPIs') (continued)
Customer
Despite the challenges of industrial action, customer satisfaction with ScotRail services, independently measured by Transport Focus, averaged 90% for the year and customer complaints were 25 per 100,000 journeys.

The Company operates under one of the most rigorous service arrangements for monitoring service delivery in the UK and the presentation of its staff, trains, and stations is audited daily by Transport Scotland. Each area is scored as 'unacceptable', 'acceptable', or 'good'. The Company's aggregated performance against all the service quality measures for the year was assessed as 'acceptable', with two periods scoring 'good' and no periods of 'unacceptable' performance.

Energy consumption was subject to continued review. This is dealt with in more detail in the section dealing with Streamlined energy and carbon reporting within the Directors' report.

95% of the Company's waste was diverted from landfill and 33% of waste recycled.

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

Demand and revenue performance in the last quarter of the year demonstrated that passengers will return to rail, following the downturn caused by COVID-19, if a punctual and reliable service is delivered. Off-peak travel grew throughout the year. While peak travel remains suppressed due to hybrid working, it grew steadily throughout the year.

The largest external risks to the Company are:

- Inflationary pressures including energy costs;
- Performance across the network in relation to infrastructure;
- The affordability of travel as a result of inflationary pressures;
- Failure of or disruption arising from a key supplier or inability to use assets supplied by them, primarily being the availability of rolling stock;
- Recruitment and retention of staff;
- The threats posed to all organisations through cyber criminality; and
- Climate change and the impact on rail infrastructure and operations.

The Directors ensure that the focus is on promoting the benefits of travelling by rail and ensuring that the timetable delivers for customers. The reputation of the business relies on delivering a safe and reliable service, and that is severely impacted during industrial action.

Infrastructure performance and essential engineering works remain a risk to the Company. There is a strong relationship with Network Rail Scotland, and a committed approach to delivering a safe, reliable railway for customers. Nevertheless, significant issues with infrastructure, or major engineering works, do present a risk and negatively impact on the journey experience of customers.

The affordability of travel and the ongoing inflationary pressures of the wider economy on household incomes also continue to have an impact. The Company invests significantly in marketing and communications to encourage rail travel and to attract more customers to ScotRail services.

A risk for the Company presents itself in relation to recruitment to fill vacancies and retention of skilled personnel. With unemployment low across the country, it is a challenge to attract people to work with the Company. The recruitment and training of drivers is still recovering from the impact of the pandemic, and failure to reduce vacancies across the business is a considerable risk to performance. The Company has led a number of recruitment drives in order to increase trainee driver numbers.

Principal risks and uncertainties (continued)
The threats posed to all organisations through cyber criminality continue to represent a serious risk to the Company. This risk is further amplified by the conflict in Ukraine. The risk of criminals attempting to exploit human or security vulnerabilities to gain access to passwords and data or to misappropriate monies is a key area of focus. To mitigate group exposure to this risk, the Company has a dedicated in-house Information Security function in place. This function is responsible for ensuring the appropriate security controls are in operation to reduce risk across the network and for maintaining a positive cyber security culture throughout the business. Workstreams are focused on industry standards such as the Network Information System ('NIS') regulation, which is governed by the Department for Transport.

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 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 interest 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 members 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 2023.

The Directors' approach to decision making
The Company's approach to decision making is discussed in detail within the Board composition section of the Directors' report.

The people
The Company recognises that its people are its most valuable asset. Significant investment has been made into personal development opportunities, mental health support, training, and management support. As noted above the Company was recognised as a 'Top Employer' during the period.

Stakeholder engagement

The last financial year has seen a period of change, challenge, and opportunity for the Company with a number of important and complex issues needing to be communicated to stakeholders. The Company was and continues to be open about the challenges faced by the railway and how it adapted to deal with these. Positive communications shared during the year covered such topics as delivering a successful transition to public ownership, settling pay disputes in a very difficult economic climate, and taking positive steps to recover service delivery following the pandemic.

The Company engaged with key stakeholders during the year in the following ways:

- Equality group for engagement with stakeholders representing disabled groups;
- Regular drop-in sessions for elected representatives to raise any issues;
- One-to-one meetings with MSPs, MPs, Councillors and other key stakeholders as required;
- Senior representatives from the Company, SRH, and Network Rail Scotland met regularly with the Transport Minister and opposition transport spokespeople;
- Regional roundtables across the country with key stakeholders from business, transport groups and local politicians;
- Scotland's Railway Stakeholder Panel meetings, held three times a year, with members drawn from senior representatives from Scotland's key sectors; and
- Regular stakeholder email updates.

The section of the Directors' report dealing with engagement with suppliers, customers, and other sections of the Directors' report provides further details on the Company's relationship with stakeholders.

Community and environment

The Company's work is vital in connecting communities, whether it is providing lifeline services for remote areas, attracting greater investment into local areas, or transporting large numbers of people into city centres to boost economic activity. The Company works with local community groups across Scotland in order to invest in their areas and deliver for our customers.

Business conduct

The Company strives to maintain a reputation for high standards of business conduct. The Directors are responsible for setting these standards. Management operate the business in a responsible manner, operating within the high standards of business conduct, good governance, and the requirements set by the Company's parent and shareholder, SRH.

The Directors provide SRH's leadership team with regular and appropriate communication to ensure they understand their strategy, objectives, and results.

Parent company

As noted above, SRH is the immediate parent company and single shareholder. In line with governance rules, financial and strategic information is shared with SRH to ensure its leadership team is fully aware of the Company's performance and future plans.

Approved by the Board on 14 December 2023 and signed on its behalf by:

....
Derek F. Marchant
Director

Directors' report
For the year ended 31 March 2023

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2023.

Dividend
No dividend was paid or proposed in the year (2022: £nil).

Charitable and political contributions
The Company made charitable donations of £600 in the year. No political donations or expenditure were made in the year.

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

Alexander J. Hynes (appointed 1 April 2022)

Christopher L. Gibb (resigned 29 December 2022)

David M. Lister (appointed 1 April 2022)

David Lowrie

David A. Simpson (appointed 1 April 2022)

Derek F. Marchant (appointed 1 December 2022)

Emma J. Dixon (appointed 1 December 2022)

James E. Griffin (appointed 1 April 2022 and resigned 11 November 2022)

James L. Shedden (resigned 1 April 2022)

Joanne H. Maguire (appointed 1 April 2022)

Lesley A. Kane (appointed 1 April 2022)

Natalie L. Smith (appointed 1 December 2022 and resigned 15 February 2023)

Nicholas J.F. Brown (appointed 16 June 2022 and resigned 31 March 2023)

William J. Reeve (resigned 1 April 2022)

The following Directors were appointed after the year end:

Carolyn J. Griffiths (appointed 18 May 2023)

John MacQuarrie (appointed 1 April 2023)

Julie Dale (appointed 18 May 2023)

Financial instruments
The Company's principal financial assets are bank balances and trade receivables. The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the Balance Sheet are net of any identified impairment or expected credit loss. The expected credit loss method has been used, in line with IFRS 9, to consider the Company's exposure to credit risk (see note 3). The Company has no significant credit risk, with exposure mainly on rail industry partners and fuel price during the financial statement year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Company's principal financial liabilities are trade creditors. The Company's activities exposed it to a variety of financial risks. Price risk was managed by the Company having a good understanding of the markets that it operated within and setting appropriate fares for each of those markets in conjunction with the Scottish Government. A proportion of its fares are fixed prices which are set annually and are subject to regulatory approval. Liquidity risk is mitigated by managing cash generated by the Company's operations and the grant payments received in line with the Grant Agreement. Cash flow risk is managed by cash flow budgeting and forecasting.

Directors' indemnities
The Company's parent maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against the Directors of the Company. This was in force during the financial year. There was no utilisation of the insurance during the financial year or for the period subsequent to the end of the financial year up to the signing of these financial statements.

Research and development
The Company has a small Sustainability Innovation fund to support research and development and testing of innovative solutions to environmental issues in the railway environment. It is a member of the Railway Safety and Standards Board ('RSSB') who coordinate research and innovation on behalf of the industry. The Company works collaboratively with its suppliers and stakeholders to trial innovation by providing controlled access to its staff, data, and facilities as is appropriate. Recent examples include providing a train to be converted to operate with hydrogen fuel cells. These trials prove invaluable in helping the sponsoring organisation refine their product design and manufacture and ultimately obtain the required approvals to use the product across the UK rail industry.

Post Balance Sheet events
Details of future developments and events that have occurred after the Balance Sheet date can be found in note 27.

Employees
Employees of the previous operator transferred to the Company on 1 April 2022 under TUPE arrangements. The Company encouraged employee involvement in driving passenger revenues during the financial year through an excess revenue share premium, which rewarded eligible employees where revenue targets were exceeded. Commissions and incentives were also introduced for gate line and manual barrier staff.

The Company is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation, and bullying. The Company is committed to ensuring that all individuals are treated fairly, with respect, and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age, or membership or non-membership of a trade union.

The Company promotes an environment of equal opportunity and respect across the entire business. It recognises its obligation to give disabled people (visible or otherwise) full and fair consideration for all vacancies within the statutory medical requirement, which must be met for certain grades of staff.

The Company offers a guaranteed interview to any disabled applicant who meets the minimum criteria for a job vacancy and offer reasonable adjustments to all applicants. Where possible, the Company will support medical redeployment applications if a colleague becomes disabled during their employment and can no longer carry out their duties.

Employees (continued)

The Company has a Disability and Carers employee network group which supports the business in being more inclusive for disabled colleagues. Training and awareness sessions focusing on disabilities are offered to colleagues and managers throughout the year. Frequent training sessions to support career development are on offer for all colleagues.

The Company has an ongoing partnership with Enable Works, which recently carried out a Disability Employers Assessment and is supporting the Company in delivering actions to improve policies and practices to be more inclusive of people with disabilities.

The Company uses consultative procedures agreed with its staff and trade union representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the Company's performance and prospects. In addition, the Company issues regular updates to all employees informing them of developments within the Company.

Communication with employees is also affected through regular briefing and negotiating meetings between the Directors, the senior management, and employee representatives through Company Council and Local Level Council. The briefing meetings enable senior management to consult with employees and to ascertain their views on matters likely to affect their interests.

Colleagues receive regular information on a variety of business issues including financial and operational performance, latest news, organisational change, and health and wellbeing matters. This is through a variety of routes including direct email, video content, and online sessions.

Senior management also regularly engage front line colleagues across the network through attendance at safety briefings, time spent out across the network visiting stations and depots, and scheduled Q&A style sessions.

The business regularly provides updates in a 'You Said, We Did' style approach, providing detailed responses to the feedback from colleagues.

Engagement with suppliers, customers, and others

Developing a strong and lasting relationship with customers, suppliers, and the wider community is a priority for the Company. The Company values the views of its stakeholders and feedback from its stakeholders is vital to ensuring that it delivers the best possible services for customers. In turn, this enables the Company to deliver on its key business objectives.

A core principle for the Company is to keep stakeholders appraised of the business developments and seeking their views on how we could deliver even better services. The Company is building relationships with key stakeholders through communication and engagements.

Branches outside the UK

During the financial year, the Company operated solely within the United Kingdom.

Streamlined energy and carbon reporting ('SECR')

The Company has a major role in Scottish Government plans for sustainable inclusive growth and the delivery of a legally binding target of net zero emissions by 2045 as well as the goal of Transport Scotland's Mission Zero to reduce emissions by 75% by 2030. The Company is committed to support these targets by setting its own science based carbon target. The Company is a key stakeholder in Scotland's Railway Sustainability Strategy including the governance and delivery of planned outcomes.

The Company has been committed to continually improving its environmental and energy performance, while minimising pollution and recognising its role in supporting the delivery of the Scottish Government's carbon emission reduction targets.

During the year, the Company continued to take action to reduce the environmental impact of its operations in the short and medium term while progressing the long-term goal to deliver net zero passenger rail services for Scotland. The Company continued to maintain externally certified environmental and energy management systems, with these systems supporting the Company's overall sustainability strategy while contributing to nationwide rail industry initiatives.

ScotRail Trains Limited

Directors' report (continued)
For the year ended 31 March 2023

Streamlined energy and carbon reporting ('SECR') (continued)
Some of the key achievements during the year were as follows:

- Continued certification to environmental management standards - ISO 14001 Environmental Management and ISO 50001 Energy Management;
- Completion of initial science-based carbon target assessment;
- Commissioned digital twin assessment of key stations and depots to target further energy reduction initiatives and opportunities to eliminate fossil fuels;
- Commenced a trial of solar powered Light Emitting Diode ('LED') car parking lighting and CCTV;
- Continued to transform Falkirk High to becoming Scotland's first net zero carbon station;
- Biodiversity fund investment in employee and community engagement in using trains to access the natural environment with its associated health and wellbeing benefits; and
- Supported SRH to develop a train fleet modernisation programme which progressively and efficiently replaces the existing fleets as they end their useful life with new zero carbon emission trains which will improve the customer experience through improved journey comfort and quality.

The Company maintains records of its energy consumption. The data below shows the Company's greenhouse gas emissions from operations, and other key metrics, for the financial year ended 31 March 2023 including prior year comparatives (nil balances as the Company did not trade until 1 April 2022):

	Year ended 31 March 2023	Period ended 31 March 2022
Emissions from combustion of gas and the consumption of fuel for the purposes of transport	87,203	-
Emissions resulting from purchase of electricity for its own use	48,089	-
Emissions resulting from business travel	709	-
Total Gross emissions - tonnes of CO2e	**136,001**	**-**
Tonnes of CO2e per headcount employee	**26.6**	**-**

	Year ended 31 March 2023	Period ended 31 March 2022
Energy consumption used to calculate emissions:		
Kilowatt Hours ('KwH')	225,730,016	-
Litres of Diesel consumed	31,708,042	-
Kilometres travelled	3,045,496	-
Litres of Petrol consumed	17,018	-

The Kilometres travelled metric in the above table comprises of all modes of transport operated or utilised in the course of business.

UK Government Conversion Factors are utilised for greenhouse gas ('GHG') reporting. The Company's Energy Management system is accredited to ISO50001 and externally audited on an annual basis.

Statement of corporate governance arrangements

SRH, as the Company's parent company has an internally generated Governance Code. Whilst the Company has not formally adopted this or another corporate governance code, it has applied its own corporate governance arrangements commensurate with its size and complexity within the first operating year and to the date of this report.

For disclosure purposes, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has adopted the Wates principles for large private companies as an appropriate framework for corporate governance. Each of the 6 Wates principles have been considered individually within the context of the Company's operations. A supporting statement has been set out below detailing how the Board Composition, Opportunity and Risk, and Executive Remuneration principles have been applied. The principles of Purpose and Leadership and Directors' Responsibilities are set out within the section 172(1) statement within the Strategic report. The Directors' Responsibilities statement has also been set out on page 16. The principle of stakeholder relationships has been set out per the stakeholder engagement section within the Strategic report.

Board composition

An efficient Board structure requires a balance of skills, backgrounds, experience, and knowledge. Each Director is required to make a valuable individual contribution.

During the past year, the Company had a Chief Operating Officer and Managing Director who ensured that the responsibilities, accountabilities, and decision making were effectively maintained. The Chief Operating Officer and Managing Director played a pivotal role in creating an environment which allowed the overall Board, and individual Directors, to be effective.

The Board is comprised of Executive and Non-Executive Directors, some of whom are also directors of SRH. The Directors believe the size and composition of the Board to be appropriate to the Company's size, nature, and complexity.

The Board composition was defined by leadership capabilities and areas of core technical expertise. Recruitment of Board members is through a rigorous process and appropriate levels of governance are applied. The combination of skills and experience of the Directors is considered suitable for the organisation.

There is open debate and constructive challenge at meetings, with Board members demonstrating good engagement with the business, and a sound understanding of the Company's strategy, associated risks, and challenges.

Directors keep their skills, knowledge, and familiarity with the Company up to date by meeting with senior management, visiting operational locations, and attending appropriate training sessions.

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 the 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. The Company prepared a number of policies and reports which detail its commitment to diversity, inclusion, belonging, and equality. These are published on the ScotRail website.

Opportunity and 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 at all times to comply with the obligations of its Grant Agreement with SRH agreement and to act as a 'Good and Efficient Operator'.

A risk register is maintained under the supervision of the Audit and Risk Committee and Company Board. Each risk is assigned an owner and mitigating actions are taken to either manage the risk or eradicate it entirely, where possible. The Audit and Risk Committee met quarterly during the financial year and again in December 2023.

Board 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.

Some of the Directors of the Company, who were also Directors of SRH, were remunerated for their services to the group as a whole and details of this can be found in the SRH annual report.

The Managing Director is formally employed and remunerated through Network Rail.

The remainder of the Directors were remunerated through the Company for their services rendered.

The Company Directors' salaries are published on the ScotRail website and are updated twice per year. The Company has established a Nominations & Remuneration Committee as a Committee of the Board to support in their responsibilities regarding remuneration, performance, and appointments. The pay and incentive structures for senior management across the group, including the Directors of the Company, will be considered by this Committee.

The Committee aims to ensure compliance with the relevant sections on pay and performance as outlined in their Framework Agreement and the Scottish Public Finance Manual, ensuring adherence to Scottish Government pay policies in particular.

The Committee meets as required to inform the Scottish Government pay consideration timeline. The Chair of the Committee may convene additional meetings as they deem necessary. The Committee reports in writing to the Board after each meeting. The Committee had its first meeting in April 2023.

Going concern

The Company is wholly owned and overseen by SRH, which is an arm's length company owned and controlled by the Scottish Government. The Company operates under a Grant Agreement with SRH under an initial five-year term, First Expiry Date of 31 March 2027, and includes an automatic extension of five years to a Final Expiry Date of 31 March 2032. The Grant Agreement includes a Grant Payment mechanism which reflects the cash requirements for the Grant Term.

As at the date of signing these financial statements, there is no evidence to suggest that the Grant Term will not automatically extend to the Final Expiry Date. There is also no evidence to suggest that a change to the funding mechanism is forthcoming which would impact the Company's going concern.

The Directors have considered the Company's ability to continue to trade for a period of at least 12 months from date of signing, with reference to a detailed cash flow forecast, budget, and relevant financial information. The Company holds a detailed budget and confirmed funding for the year ending 31 March 2024 and an outer years budget to 31 March 2029.

Given that the Grant Agreement First Expiry Date does not fall within at least 12 months from the date of approval of the financial statements and no significant events have been noted that would cast doubt over the Company's ability to continue operations, the Directors are satisfied that the Company has sufficient resources available to meet is financials obligations as they fall due for a period of at least 12 months from the date of signing.

Accordingly, the financial statements have been prepared on a going concern basis.

Future developments
The Company made several improvements in the new timetables which it issued in May and December 2023. Following successful timetable consultation in 2023, customers have been invited to provide their feedback on the proposed timetables for 2024.

The latest phase of Scottish Government's rail decarbonisation programme is now complete, enabling the Company to replace some diesel trains with electric trains on services between Barrhead and Glasgow.

The Company continues to work in partnership with Transport Scotland and Network Rail to design and deliver the future phases of the rail decarbonisation programme. A strategy has been completed to replace the diesel train fleet and work is now underway to mobilise for the procurements of new intercity, rural, and suburban trains for introduction over the next ten years.

Following the successful redevelopment of Aberdeen station, similar transformational work took place at Motherwell and Stirling. Passengers and staff are now benefitting from these improvements.

For a trial period of six months commencing in October 2023, the Company introduced a six-month long 'Off-Peak All Day' trial, funded by the Scottish Government. By introducing fares that are simpler and often cheaper, this initiative aims to make public transport more accessible and affordable and encourage people to travel by train rather than car.

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 Directors are aware, there is no relevant audit information of which the Company's auditor is unaware.
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Independent auditor
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Board meeting at which these financial statements are approved.

Approved by the Board on 14 December 2023 and signed on its behalf by:

....

Derek F. Marchant
Director

ScotRail Trains Limited

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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 also 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.

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

ScotRail Trains Limited

Independent auditors' report to the members of ScotRail Trains Limited

Report on the audit of the financial statements

Opinion

In our opinion, ScotRail Trains Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and statutory financial statements (the "Annual Report"), which comprise: the Balance Sheet and the Statement of Changes in Equity as at 31 March 2023; Income Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 9, 'Auditors' remuneration', we have provided no non-audit services to the company in the period under audit.

Conclusions relating to going concern

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

- Obtaining and reviewing the cash flow forecasts and budgets for the periods ending 31 March 2024 and 2025;
- Confirming our understanding of the Railways Act 1993 and the Scottish Ministers obligations to operate the passenger rail service in Scotland; and
- Reviewing the terms of the Grant Agreement in place between ScotRail Trains Limited, Scottish Rail Holdings Limited and the Scottish Ministers to confirm that adequate funding is in place for a period of at least 12 months from the date of approval of the financial statements.

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

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

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

Independent auditors' report to the members of ScotRail Trains Limited (continued)

Conclusions relating to going concern (continued)

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

ScotRail Trains Limited

Independent auditors' report to the members of ScotRail Trains Limited (continued)

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment, health and safety legislation and the Railways Act 1993, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to improve the financial results and management bias in significant judgements and accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of board minutes;
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations;
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulations;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, including accounting for defined benefit pension schemes and the service agreement term assumption.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of ScotRail Trains Limited (continued)

Other matter

The financial statements for the year ended 31 March 2022, forming the corresponding figures of the financial statements for the year ended 31 March 2023, are unaudited.

Kenneth Wilson

....

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
Glasgow

Date: 14 December 2023

ScotRail Trains Limited

Income Statement
For the year ended 31 March 2023

	Note	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Revenue			
Passenger revenue		265,492	-
Other revenue		15,679	-
Government grant income		691,736	-
Total Revenue	5	972,907	-
Operating costs		(967,631)	-
Operating profit		5,276	-
Interest payable and similar charges	6	(5,394)	-
Loss before taxation		(118)	-
Tax on profit or loss	10	-	-
Loss for the financial year/period	11	(118)	-

The above results were derived from continuing operations.

The Company has no recognised gains and losses other than the profit/(loss) above and therefore no separate statement of comprehensive income has been prepared.

The notes on pages 25 to 52 form an integral part of these financial statements.

ScotRail Trains Limited

Balance Sheet
As at 31 March 2023

	Note	31 March 2023 £ 000	31 March 2022 £ 000
Non-current assets			
Intangible assets	12	60	-
Tangible assets	13	21,010	-
Right-of-use assets	14	502,832	-
		523,902	-
Current assets			
Inventories	15	12,892	-
Trade and other receivables	16	78,673	-
Cash and cash equivalents		67,721	30,412
		159,286	30,412
Total assets		683,188	30,412
Current liabilities			
Trade and other payables	17	(182,406)	(30,412)
Lease liabilities	19	(89,360)	-
		(271,766)	(30,412)
Net current liabilities		(112,480)	-
Total assets less current liabilities		411,422	-
Non-current liabilities			
Loans and borrowings	18	(6,330)	-
Lease liabilities	19	(398,278)	-
		(404,608)	-
Provisions for liabilities	20	(5,645)	-
Total liabilities		(682,019)	(30,412)
Net assets		1,169	-
Equity			
Called-up share capital*	21	-	-
Capital contribution reserve	21	1,287	-
Retained earnings	21	(118)	-
Total equity		1,169	-

*The Company held 1 ordinary share of £1 during the current and prior year.

The notes on pages 25 to 52 form an integral part of these financial statements.

ScotRail Trains Limited

Balance Sheet (continued)
As at 31 March 2023

The financial statements of ScotRail Trains Limited (registration number: SC328826 (Scotland)) on pages 21 to 52 were approved by the Board of Directors and authorised for issue on 14 December 2023.

They were signed on its behalf by:

....

Derek F. Marchant
Director

The notes on pages 25 to 52 form an integral part of these financial statements.

ScotRail Trains Limited

Statement of changes in equity
For the year ended 31 March 2023

	Called-up share capital* £ 000	Capital contribution reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 September 2021	-	-	-	-
Profit/(loss) for the period	-	-	-	-
Total comprehensive income/(loss)	-	-	-	-
At 31 March 2022	-	-	-	-

	Called-up share capital* £ 000	Capital contribution reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 April 2022	-	-	-	-
Loss for the year	-	-	(118)	(118)
Total comprehensive loss	-	-	(118)	(118)
Capital contribution reserve	-	1,287	-	1,287
At 31 March 2023	-	1,287	(118)	1,169

*The Company held 1 ordinary share of £1 during the current and prior year.

The notes on pages 25 to 52 form an integral part of these financial statements.

1 General information

ScotRail Trains Limited is a private Company limited by share capital incorporated and domiciled in the United Kingdom.

The address of its registered office is:
Atrium Court
50 Waterloo Street
Glasgow
Scotland
G2 6HQ

The nature of the Company's operations and principal activities are set out in the Strategic report on page 3.

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 thousand pounds (£ 000) except when otherwise indicated.

2 Adoption of new and revised International Financial Reporting Standards

Impact on 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'), IFRS Standards 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 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contract;
- Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture;
- Amendments to IAS 16 - Property, Plant and Equipment - Proceeds before Intended Use; and
- Amendments to IFRS 3 - Reference to the Conceptual Framework.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current;
- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies;
- Amendments to IAS 8 - Definition of Accounting Estimates;
- IFRS 17 Insurance contracts;
- Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback;
- Amendments to IAS 1 - Non-current Liabilities with Covenants; and
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

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 Financial Reporting Standard ('FRS') 100 issued by the Financial Reporting Council. The financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

Changes in the basis of preparation
The financial statements since inception were prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. Following the transfer of ScotRail services into public control and ownership under ScotRail Trains Limited, from 1 April 2022 the Company elected to prepare its financial statements in accordance with the Companies Act 2006 as applicable to companies using FRS 101 'Reduced Disclosure Framework'.

In the financial statements, additional disclosures within the notes have been included in accordance with FRS 101 and where these have been included, the comparatives have also been provided, which were not shown in the previous financial statements.

Upon the transition to FRS 101 the following updates were made to the naming conventions previously applied under FRS 102:

- Cash and cash equivalents (2022: Cash at bank and in hand); and
- Called-up share capital (2022: Ordinary share capital).

Basis of accounting
The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

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 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;

3 Accounting policies (continued)

Summary of disclosure exemptions (continued)

- the requirements of paragraphs 134(d)-134(1) and 135(c)-135(e) of IAS 36 Impairment of Assets; and
- the requirements of paragraphs 110(b), 113(b), 114-115, 118, 119(b), 121-122, 123(b), 126 and 129 of IFRS 15 Revenue from Contracts with Customers.

Where relevant, equivalent disclosures have been given in the Company accounts of SRH. The Company accounts of SRH are available to the public and may be obtained by writing to Scottish Rail Holdings Limited, Glasgow Queen Street Station Management Suite, Dundas Street, Glasgow, Scotland, G1 2AQ.

The principal accounting policies adopted are set out below.

Going concern

The Company is wholly owned and overseen by SRH, which is an arm's length company owned and controlled by the Scottish Government. The Company operates under a Grant Agreement with SRH under an initial five-year term, First Expiry Date of 31 March 2027, and includes an automatic extension of five years to a Final Expiry Date of 31 March 2032. The Grant Agreement includes a Grant Payment mechanism which reflects the cash requirements for the Grant Term.

As at the date of signing these financial statements, there is no evidence to suggest that the Grant Term will not automatically extend to the Final Expiry Date. There is also no evidence to suggest that a change to the funding mechanism is forthcoming which would impact the Company's going concern.

The Directors have considered the Company's ability to continue to trade for a period of at least 12 months from date of signing, with reference to a detailed cash flow forecast, budget, and relevant financial information. The Company holds a detailed budget and confirmed funding for the year ending 31 March 2024 and an outer years budget to 31 March 2029.

Given that the Grant Agreement First Expiry Date does not fall within at least 12 months from the date of approval of the financial statements and no significant events have been noted that would cast doubt over the Company's ability to continue operations, the Directors are satisfied that the Company has sufficient resources available to meet is financials obligations as they fall due for a period of at least 12 months from the date of signing.

Accordingly, the financial statements have been prepared on a going concern basis.

Revenue

Passenger revenue

The Company generates revenue from tickets for rail travel sold under the National Rail Conditions of Travel. The ticket sold forms a binding contract between the passenger and any train operating company. The transaction price for each ticket is set via the Rail Settlement Plan, which attributes the price of a ticket purchased to the relevant Train Operating Company ('TOC') based on the Operational Research Computerised Allocation of Tickets to Services ('ORCATS') allocation.

There are four key product types: daily tickets; season tickets; railcards; and combined tickets and travel passes. The sections below set out the revenue recognition for each ticket type.

Daily tickets

The Company has assessed that there is one performance obligation for the provision of transport on the specified day and for the specified route set out on the ticket. The transaction price of each ticket is the Company's share from the Rail Settlement Plan and this is recognised as revenue on the day of travel specified on the ticket.

3 Accounting policies (continued)

Revenue (continued)

Passenger revenue (continued)

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 the Company transfers control of the season ticket over time and therefore satisfies the performance obligation over time. Revenue is recognised over the validity period of the season ticket on a straight line basis.

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

Revenue is recognised over the validity period of the railcard on a straight line basis.

Combined tickets and travel passes
The Company has assessed that there is one performance obligation for the provision of transport across the specified period and routes on ScotRail services. Although the customer may be able to use the service multiple times (over the course of the validity of the pass), 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 or pass is the Company's share from the Rail Settlement Plan and the Company transfers control of the ticket or pass over time and therefore satisfies the performance obligation over time. For tickets offering unlimited travel within a specified time period, revenue is recognised over the validity period of the ticket or pass on a straight-line basis. For flexipass tickets, where passengers are offered a set number of journeys within a specified time period, revenue is recognised as each journey is taken.

Other revenue

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 fulfils the obligation 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 term of the contract.

Train maintenance
The Company provides train maintenance services to other train operating companies, under service contracts. The Company has assessed that there is one performance obligation under each agreement and that the Company fulfils the obligation of the services provided to the customer over a period of time. As such, revenue, based on the transaction price set out in the terms of the contract, is recognised on a straight line basis over the term of the contract.

3 Accounting policies (continued)

Revenue (continued)

Other revenue (continued)

Commission
The Company generates commission income, through the sale of rail tickets to third parties, on behalf of various TOCs in the UK. The Company has assessed that there is one performance obligation and that the Company fulfils the obligation for the services provided to the customer at the point of time set out on the ticket. 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, 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.

Government grant income
Under the Grant Agreement, Government Grant Income is received by way of cash grant payments from SRH, each rail period in advance, to cover the anticipated net expenditures for the upcoming rail period. Any prior period adjustment to reflect the actual cash requirement is offset against the next grant payment. Thirteen payments are made across any given financial year, one for each rail period.

Although the Government Grant Income is received via cash payment, it is intended to compensate for the fact that the revenue generated from passenger revenue and other revenue does not cover the operating costs of the Company. It is therefore determined that the Government Grant Income should offset the net operating expenditures incurred during the year. The Company present the Government Grant Income within the revenue section of the Income Statement to most closely show the substance of the arrangement, however it is not IFRS 15 revenue from a contract with a customer.

Government Grant Income is accrued as required as at the Balance Sheet date to reflect cash payments due from SRH to settle the remaining in-year net expenditures (note 16). Deferred Government Grant Income received in advance on 31 March 2023 for rail period 1 of the next financial year is deferred as required (note 17). Amounts due to be repaid to SRH as a result of any prior period adjustment to reflect the differential between the anticipated net cash expenditures and actual cash expenditures for rail period 13 of the financial year are recorded in trade payables (note 17).

3 Accounting policies (continued)

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.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Tangible assets

Tangible assets are stated at historic cost less accumulated depreciation.

Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of fixed assets over the shorter of the asset's expected useful economic life, as outlined below, or the Grant Agreement expiry date.

Asset class	*Expected useful economic life*
Leasehold improvements	Shorter of the lease term or expected life of the underlying assets
Plant and equipment	5 to 10 years
Fixtures and fittings	3 to 10 years
Computer equipment	3 to 10 years

Work-in-progress assets are not depreciated until they are available for use. When the asset is complete and available for use, the cost is transferred to the appropriate asset class and depreciated based on the depreciation policy noted above.

Capital grants

The Company receive funding for all of its activities, which includes capital projects. Capital projects are funded primarily by government bodies, principally Transport Scotland, Network Rail and local authorities, and are accounted for under IAS 20.

Capital grants are presented in the Balance Sheet as Deferred Government Grant Income and released to Operating Costs within the Income Statement over the estimated useful economic life of the related asset.

3 Accounting policies (continued)

Leases

The Company as a lessee
The Company assesses whether an identified asset and the related 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 terms of less than 12 months) and low value leases (such as personal computer hardware, office furniture, photocopiers, mobile phones, and coffee machines). For these leases, the Company has elected to apply the exemption included within IFRS 16 and recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Right-of-use asset
Right-of-use assets comprise rolling stock, offices, other property leases, and motor vehicles. At the lease commencement the Company recognises both a right-of-use asset and a corresponding lease liability.

Right-of-use assets are initially measured at cost which includes:

- the initial measurement of the lease liability, discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Company will use the incremental borrowing rate.
- any lease payments made at or before the commencement date, less any lease incentives received;
- an estimate of the costs incurred upon dismantling or removing the asset or returning the underlying asset to the condition required by the lease arrangement; and
- other initial direct costs resulting from the introduction of the lease arrangement.

After the commencement date the right-of-use assets are measured using a cost model. The lease agreements are such that a termination option is available to the Company at the point at which the Grant Term expires. Right-of-use assets are therefore depreciated over the shorter of the lease term and the assessed Grant Agreement Term and would be impacted by any extension to the Grant Agreement Term - see the critical judgement within note 4 for further details.

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

Where an option to extend the lease is available this will be included within the lease term where there is reasonable certainty that this option will be exercised.

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 occur and are included in the Income Statement as operating costs.

The leases are assessed for lease and non-lease elements (service and maintenance arrangements) which, except for heavy maintenance, as outlined below, do not meet the scope for IFRS 16 as there is no identifiable asset and are recognised in Statement of comprehensive net expenditure as operating costs.

Station and depot access arrangements with Network Rail are not capitalised under right-of-use assets given the restrictions placed on those contracts do not meet the criteria for recognition under IFRS 16. The costs are therefore recognised in the Income Statement as operating costs when incurred.

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

3 Accounting policies (continued)

Leases (continued)

Right-of-use asset (continued)

Heavy maintenance
Maintenance and repair costs for leased rolling stock is charged to raw materials and consumables as incurred, with the exception of heavy maintenance expenditures on leased rolling stock, which are capitalised as described below. Heavy maintenance events typically consist of more complex inspections and servicing of rolling stock.

Heavy maintenance assets are held in the statement of financial position as part of the IFRS 16 right-of-use assets - see separate note 14 - and are accounted for under IAS 16 Property, Plant, and Equipment. Rolling stock recorded as heavy maintenance assets have the same accounting policies as directly owned assets.

Heavy maintenance assets of leased rolling stock, including replacement spares and parts, labour costs, and/or third party maintenance service costs, are capitalised as part of the right-of-use asset and depreciated over the shorter of the lease term and the expected life between heavy maintenance events. All other maintenance costs are recognised in the Income Statement as operating costs when incurred.

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 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;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease liabilities will be recognised as current and non-current liabilities within the Statement of financial position.

The carrying value is increased to reflect the interest on the lease liability and reduced to reflect lease payments made over the term of the lease.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The carrying value is also adjusted to reflect any changes to the lease utilising the discount rate at the point of remeasurement.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised payments using an unchanged discount rate (unless the lease payments change is due to a change in floating rate, in which case a revised discount rate is used).

3 Accounting policies (continued)

Leases (continued)

Lease liability (continued)

- 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 period presented.

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 the shorter of their expected useful life and the anticipated Grant Agreement expiry date on the following basis:

Asset class	Expected useful economic life
Brands	7 years
Software costs	7 years

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 the Income Statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash on hand that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Inventories

Stocks are valued at the lower of cost and replacement cost after making due allowance for obsolete items. Cost includes all costs incurred in bringing each product to its present location and condition.

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 term of the Grant Agreement.

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

3 Accounting policies (continued)

Defined benefit pension obligation (continued)
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 accounting liabilities are updated at each Balance Sheet date and, typically, every three years are rebalanced to allow for the triennial statutory funding valuation. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the Balance Sheet. Discussions continue with the Pensions Regulator on the statutory funding valuations as at 31 December 2016 and 31 December 2019, as such those valuations are not yet complete. However, the draft results of the 31 December 2019 statutory funding valuation are available and have been used in the calculation of the year-end accounting liabilities.

Financial instruments

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

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

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

Trade receivables are recognised at fair value 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 liabilities

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities
Other financial liabilities are initially measured at fair value. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

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

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.

ScotRail Trains Limited Grant Agreement Term

The Company operates as a publicly owned train operating company through a Grant Agreement awarded on 1 April 2022 by SRH, a Non-Departmental Public Body of the Scottish Government. The Grant Agreement has a First Expiry Date of 31 March 2027 and includes an automatic extension of five years to a Final Expiry Date of 31 March 2032.

The Directors determined, for the purposes of these financial statements, that the Grant Agreement will remain in effect until the Final Expiry Date. Although the Company had not received official confirmation of this from SRH at the time of preparing these financial statements, there has been no correspondence received which would lead the Directors to reasonably believe that SRH had any plan to end the Grant Agreement before the Final Expiry Date.

The judgement affects these financial statements in respect of reporting for leases under IFRS 16 and going concern as follows:

IFRS 16

At the inception of a lease management assess the lease term. In this assessment management considers the embedded termination options contained within the lease. Termination options are disregarded from the initial measurement if the lessee is reasonably certain not to exercise the option. This judgement over whether termination options will be exercised impacts the lease liabilities and right-of-use assets recognised on the Balance Sheet at inception of the lease.

The judgement applied to assume the automatic extension of the Grant Agreement Term to 31 March 2032 leads to an additional amount of £116,000k for both the right-of-use asset additions (see note 14) and lease liability (see note 19) when compared to a term to the First Expiry Date of 31 March 2027.

Note that leases with a lease term ending after 31 March 2032 have been initially measured with the assumption that a termination option will be exercised at the Final Expiry Date.

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

Pension and other post-employment benefits

The cost of defined benefit pensions plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. The discount rate is based on the market yields at the reporting date on high quality corporate bonds. The currency and term of the corporate bonds should be consistent with the currency and estimated term of the post-employment benefit obligations. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 24.

5 Revenue

The analysis of the Company's revenue is as follows:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Passenger revenue	265,492	-
Other revenue	15,679	-
Government grant income	691,736	-
	972,907	-

All revenue arises from operations within the United Kingdom. As discussed in the Grant Agreement Income accounting policy detailed within note 3, this is not IFRS 15 revenue.

Other revenue comprises of station access, train maintenance, commission, and car park income.

6 Interest payable and similar charges

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Interest paid to external parties	138	-
Interest paid to parent	118	-
Interest charge on leases	5,138	-
	5,394	-

The interest paid to parent as noted above arose solely as a result of an accounting adjustment when applying the effective interest rate method to group borrowings. Further details are outlined within note 18.

7 Staff costs

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

	Year ended 31 March 2023 No.	1 September 2021 to 31 March 2022 No.
Drivers	1,321	-
On-train staff	1,048	-
Station staff	962	-
Fleet maintenance staff	938	-
Management and administrative staff	656	-
	4,925	-

The actual headcount from 31 March 2022 to 31 March 2023 has been provided below.

	31 March 2023 No.	31 March 2022 No.
Drivers	1,368	-
On-train staff	1,107	-
Station staff	1,040	-
Fleet maintenance staff	942	-
Management and administrative staff	661	-
	5,118	-

Their aggregate remuneration comprised:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Wages and salaries	237,708	-
Social security costs	25,710	-
Other pension costs	13,848	-
Redundancy costs	1,337	-
Other staff costs	1,139	-
	279,742	-

The redundancy costs above consist of amounts related to ill health retirement (£1,337k).

8 Directors' remuneration

The Directors' remuneration for the year/period was as follows:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Remuneration	828	-
Company pension contributions to defined benefit schemes	71	-
	899	-

Remuneration amounts disclosed above include the following amounts paid to the highest paid Director:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Remuneration	178	-
Company pension contributions to defined benefit schemes	16	-
	194	-

Retirement benefits accrued to the Director at 31 March 2023 under a defined benefit scheme of £nil (2022: £nil). The pension lump sum accruing to the highest paid Director at the 31 March 2023 was £nil (2022: £nil). The remaining Directors of the Company are remunerated through SRH or Network Rail but not through the Company.

No compensation for loss of office was paid to the Directors.

9 Auditors' remuneration

The analysis of auditors' remuneration is as follows:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Fees payable for the audit of the Company's annual financial statements	330	-
Other assurance services	1	-
	331	-

10 Tax on profit or loss

(a) Tax (credited)/charged for the year/period in the Income Statement:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Current taxation		
UK corporation tax	316	-
Other adjustment	(316)	-
	-	-
Deferred taxation		
Origination and reversal of timing differences	-	-
Effect of change in tax rates	-	-
Total deferred taxation	-	-
Tax (credit)/charge in the Income Statement	-	-

In addition to the amount (credited)/charged to the Income Statement, the following amounts relating to tax have been recognised in other comprehensive income:

(b) Tax charge for the year/period in other comprehensive income:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Current tax		
	-	-
Total income tax recognised in other comprehensive income	-	-

The tax on loss before tax for the year/period is the same as the standard rate of corporation tax in the UK of 19% (2022: 19%).

10 Tax on profit or loss (continued)

The (credit)/charge for the year/period can be reconciled to the loss in the Income Statement as follows:

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Loss before taxation	(118)	-
Corporation tax at standard UK rate of 19% (2022: 19%)	(22)	-
Expenses not deductible	813	-
Income not taxable	(475)	-
Other	(316)	-
Tax (credit)/charge for the year/period	-	-

Factors that may affect future tax charges

The Finance Act 2022 introduced provisions to increase the tax rate from 19% to 25% from 1 April 2023. The impact of this change is expected to be £nil.

11 Loss for the financial year/period

Loss for the year/period has been arrived at after charging:

	Year ended 31 March 2023£ 000	1 September 2021 to 31 March 2022 £ 000
Raw materials and consumables	13,527	-
Depreciation - owned assets	1,240	-
Amortisation expense	496	-
Depreciation on right-of-use assets - Rolling stock	99,965	-
Depreciation on right-of-use assets - Buildings	745	-
Depreciation on right-of-use assets - Plant and equipment	100	-
Impairment loss of other intangibles	2,613	-
Write-downs of inventories recognised as an expense	146	-
Network Rail access charges - fixed	313,401	-
Network Rail access charges - variable	13,511	-
Other fixed station access charges	45,270	-
Train maintenance	39,645	-
Traction electricity charge	24,052	-
Lease items excluded from IFRS 16	13,374	-
Rolling stock leasing costs	31,673	-
Diesel fuel costs	33,477	-
Auditors' remuneration (see note 9)	331	-
Other employee expenses	6,866	-

12 Intangible assets

	Brands costs £ 000	Work in progress - Software £ 000	Total £ 000
Cost or valuation			
At 1 April 2022	-	-	-
Additions	3,109	60	3,169
At 31 March 2023	3,109	60	3,169
Accumulated amortisation			
At 1 April 2022	-	-	-
Amortisation charge	496	-	496
Impairment	2,613	-	2,613
At 31 March 2023	3,109	-	3,109
Net book value			
At 31 March 2023	-	60	60
At 31 March 2022	-	-	-

Work in progress consists of assets under construction where bringing the asset into use has not yet been completed. Amortisation on work in progress assets commences when each project is complete.

Of the above additions, £3,109k relates to assets transferred in from the previous ScotRail operator. Further details on this transfer can be found within note 25.

The Company impaired the Brand costs which were taken on from the previous operator of ScotRail in full during the year (£2,613k). These brands are still in use however the Company does not attribute specific cashflows to sub-brands, as the business operates as one cash generating unit. The Company is restricted in its ability to perform an internal valuation of these specific brand assets.

13 Tangible assets

	Plant & Equipment £ 000	Fixtures & Fittings £ 000	Computer Equipment £ 000	Work in Progress £ 000	Total £ 000
Cost or valuation					
At 1 April 2022	-	-	-	-	-
Additions	5,763	2,192	354	13,941	22,250
At 31 March 2023	5,763	2,192	354	13,941	22,250
Accumulated depreciation					
At 1 April 2022	-	-	-	-	-
Charge for the year	983	223	34	-	1,240
At 31 March 2023	983	223	34	-	1,240
Net book value					
At 31 March 2023	4,780	1,969	320	13,941	21,010
At 31 March 2022	-	-	-	-	-

Work in progress consists of assets under construction where bringing the asset into use has not yet been completed. Depreciation on work in progress assets commences when each project is complete.

Of the above additions, £6,758k relates to assets transferred in from the previous ScotRail operator. Further details on this transfer can be found within note 25.

14 Right-of-use assets

	Rolling stock £ 000	Buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost				
At 1 April 2022	-	-	-	-
Additions	598,882	3,726	1,034	603,642
At 31 March 2023	598,882	3,726	1,034	603,642
Accumulated depreciation				
At 1 April 2022	-	-	-	-
Charge for the year	99,965	745	100	100,810
At 31 March 2023	99,965	745	100	100,810
Carrying amount				
At 31 March 2023	498,917	2,981	934	502,832
At 31 March 2022	-	-	-	-

The Company leases several assets including rolling stock, property and vehicles.

	Year ended 31 March 2023 £ 000	1 September 2021 to 31 March 2022 £ 000
Amounts recognised in profit and loss account		
Depreciation expense on right-of-use assets	100,810	-
Interest charge on lease liabilities	5,138	-
Expense relating to variable lease payments not included in the measurement of the lease liability	292	-
Expense relating to leases of low value assets	3	-
	106,243	-

At 31 March 2023, the Company is committed to £nil for short-term leases.

15 Inventories

	31 March 2023 £ 000	31 March 2022 £ 000
Fuel stocks	761	-
Engineering spares	12,131	-
	12,892	-

Inventories are stated after provisions for impairment of £nil (2022: £nil).

16 Trade and other receivables

	31 March 2023 £ 000	31 March 2022 £ 000
Trade debtors	11,600	-
Other debtors	4,315	-
VAT	21,366	-
Accrued income	26,376	-
Prepayments	4,354	-
Accrued income for government grants	10,662	-
	78,673	-

The Company had £46k provisions for impairment of trade debtors during the year (2022: £nil).

17 Trade and other payables

	31 March 2023 £ 000	31 March 2022 £ 000
Trade creditors	30,831	-
Social security and other taxes	6,063	-
Accrued expenses	48,424	1
Other payables	14,910	7,500
Deferred season ticket income	1,093	-
Deferred government grant income	56,324	22,911
Deferred project income	24,761	-
	182,406	30,412

The other payables balance above mainly comprises amounts relating to payroll payables.

In the prior year, the other payables balance consisted of the working capital balance which was reclassified in the current year upon commencement of the Grant Agreement (see note 18).

For Deferred project income above please see the accounting policy for capital grants on page 30 of these financial statements.

18 Loans and borrowings

	31 March 2023 £ 000	31 March 2022 £ 000
Loan due to Scottish Rail Holdings Limited	6,330	-
	6,330	-

Per the Grant Agreement, effective from 1 April 2022, the Company is entitled to a Working Capital Loan of £7.5m from SRH. This Working Capital Loan is unsecured, does not accrue interest, and is repayable to SRH after the Final Expiry Date, or upon termination, of the Grant Agreement. This loan has been discounted using the effective interest rate method.

	31 March 2023 £ 000	31 March 2022 £ 000
Amounts falling due within one year	-	-
Amounts falling due after one year	6,330	-
	6,330	-

19 Lease liabilities

	31 March 2023 £ 000	31 March 2022 £ 000
Analysed as:		
Non-current	398,278	-
Current	89,360	-
	487,638	-

	31 March 2023 £ 000	31 March 2022 £ 000
Maturity analysis		
Due up to one year	89,360	-
Due between one and five years	281,953	-
Due after five years	116,325	-
	487,638	-

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

The total cash outflow for leases amounted to £112,258k (2022: £nil).

20 Provisions for liabilities

	Dilapidations £ 000	Total £ 000
At 1 April 2022	-	-
Additional provisions	5,645	5,645
At 31 March 2023	5,645	5,645
Non-current liabilities	5,645	5,645
Current liabilities	-	-

The dilapidation provision includes the estimated cost of the obligation to return certain rolling stock back to their original state at the cessation of the lease.

21 Equity

Allotted, called up, and fully paid shares

	31 March 2023 No.	31 March 2023 £	31 March 2022 No.	31 March 2022 £
Ordinary shares of £1 each	1	1	1	1

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

The shareholders of the Company during the financial year are SRH (SC548826).

The Company's other reserves are as follows:

Retained earnings

The retained earnings accounts represents cumulative profits or losses, net of dividends paid, and other adjustments.

Capital contribution reserve

Capital contributions of £1,287k (2022: £nil) are as a result of the application of the effective interest rate method applied to the Working Capital Loan (note 18) received from SRH.

22 Capital commitments

At 31 March 2023, amounts contracted for but not provided in the financial statements for the purchase of tangible assets amounted to £7,967k (2022: £nil).

23 Related party transactions

The Company has taken advantage of the exemption not to disclose any transactions between wholly owned group undertakings conferred by IAS 24 on the grounds that the Company's results are included in full in the consolidated financial statements of the parent undertaking, which are publicly available.

24 Retirement benefits

Railway Pension Scheme — ScotRail Section

The Company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the "Railway Pension Scheme". The defined benefit scheme is administered by a separate fund that is legally separated from the Company. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders of the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund. The last full actuarial valuation of the scheme was carried out by independent actuaries as at 31 December 2013. The actuarial valuation was updated for 31 March 2023; based on the 31 December 2019 draft actuarial valuation, and at this date the market value of the scheme's assets totalled £1,004.6m. The actuarial value of these assets was sufficient to cover 72.1% of the benefits which had accrued to the scheme's members.

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. Contributions are paid in line with the latest agreed Schedule of Contributions in 2013. The current contribution rate is 6.52% for employees and 9.78% for employers.

The actuarial assumptions used in determining the draft 2019 full actuarial valuation were that the rate of earnings increase would be 2.8% per annum and the rate of inflation would be 2.8%/2.0% (RPI/CPI) 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 Grant Agreement.

Any deficit reflected in the Balance Sheet reflects only that portion of the deficit that is expected to be funded over the Grant Agreement term, net of deferred tax. An 'operator adjustment' is made to the deficit on this basis. The operator adjustment is the projected deficit at the end of the Grant Agreement term which the Company will not be required to fund, discounted back to present value.

The valuations used have been based on the draft results of the 31 December 2019 statutory funding valuation and have been 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. Discussions continue with the Pensions Regulator on the statutory funding valuations as at 31 December 2016 and 31 December 2019, as such those valuations are not yet complete. However, the draft results of the 31 December 2019 statutory funding valuation are available and have been used in the calculation of the year-end accounting liabilities.

The weighted average duration of the Section's defined benefit obligation ('DBO') is approximately 20 years at the end of the reporting year. All the assets are unquoted in the financial statements.

24 Retirement benefits (continued)

The Company is exposed to a number of risks relating to the Section, including assumptions not being borne out in practice. It should be noted that due to the nature of the operator adjustment, the Company is effectively shielded from these risks relating to the Section in the short-term. Some of the most significant risks are as follows, although the list is not exhaustive:

- Asset volatility: There is a risk that a fall in assets values is not matched by a corresponding reduction in the value placed on the Section's DBO. The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term, but gives exposure to volatility and risk in the short-term.
- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.
- Inflation risk: The majority of the Section's DBO is linked to inflation, where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.

Net defined benefit position

	31 March 2023 £ 000	31 March 2022 £ 000
Cash and cash equivalent	1,137	-
Equity instruments	774,146	-
Debt instruments	61,819	-
Real estate	87,151	-
Other	80,350	-
Total fair value of scheme assets	1,004,603	-
Present value of scheme liabilities	(934,233)	-
Operator adjustment	(42,222)	-
Defined benefit obligation	28,148	-
Members' share of deficit	(28,148)	-
Deficit in the scheme	-	-
Related deferred tax asset	-	-
Net pension liability	-	-

24 Retirement benefits (continued)

Scheme assets are stated at their market value at the respective Balance Sheet dates. The expected rate of return on assets is determined based on the market returns on each category of scheme assets.

Analysis of the amount charged to operating profit:

	31 March 2023 £ 000	31 March 2022 £ 000
Current service cost	39,390	-
Administrative expenses	1,546	-
Interest expense on defined benefit obligation	23,798	-
Interest income on pension scheme assets	(17,370)	-
Interest on operator adjustment	(6,598)	-
Operator adjustment	(26,918)	-
	13,848	-

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

	31 March 2023 £ 000	31 March 2022 £ 000
Return on plan assets	(54,245)	-
Loss from change in members' share	(207,598)	-
Change in assumptions	625,747	-
Loss on operator adjustment	(284,479)	-
Effect of experience adjustments	(52,507)	-
Total re-measurement recognised in the statement of comprehensive income	26,918	-
OCI operator adjustment	(26,918)	-
Net total re-measurements included in OCI	-	-

24 Retirement benefits (continued)

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

	31 March 2023 £ 000	31 March 2022 £ 000
Fair value of scheme assets at 1 April 2022 (2022: 1 September 2021)	1,037,680	-
Return on plan assets	(54,245)	-
Cash contributions - employer	13,848	-
Cash contributions - employee	9,051	-
Interest income - employer	17,370	-
Interest income - employee	11,580	-
Benefits paid	(28,104)	-
Administration expense	(2,577)	-
Fair value of schemes assets	1,004,603	-

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.

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

	31 March 2023 £ 000	31 March 2022 £ 000
Defined benefit obligation at 1 April 2022 (2022: 1 September 2021)	1,430,445	-
Current service cost - employer	39,390	-
Current service cost - employee Benefits paid	26,079	-
Interest expense - employer	(28,104)	-
Interest expense - employee	23,798	-
Effect of changes in financial assumptions Effect of experience	15,865	-
adjustments	(625,747)	-
Defined benefit obligation	52,507	-
	934,233	-

24 Retirement benefits (continued)

The following assumptions have been used:

	31 March 2023	31 March 2022
Rate of increase in salaries	3.2%	-
Rate of increase of pensions	2.7%	-
Discount rate	4.8%	-
Inflation assumption	3.1%	-
Post-retirement mortality		
Retiring at balance sheet date:		
Male	20.0	-
Female	22.7	-
Retiring in 25 years:		
Male	21.9	-
Female	24.7	-

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 50 bps	Increase/decrease by 10.8%/9.5%
Inflation assumption	Increase/decrease by 25 bps	Increase/decrease by 5.4%/5.0%
Rate of salary increases	Increase/decrease by 25 bps	Increase/decrease by 1.4%/1.3%
Post-retirement mortality	Plus one year rating	Increase/decrease by 2.2%

To estimate the defined benefit obligation, assumptions are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities, and the results based on that single scenario are included in the valuation of the defined benefit obligation. The future is uncertain and the Scheme's actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely 'correct' and many alternative projections of the future could also be regarded as reasonable. A 'sensitivity analysis' shows the degree to which results would be different if you substitute alternative assumptions within the range of possibilities for those utilised. An indication of the sensitivity of the results to changes in the most material assumptions (i.e., discount rate, salary increases, price inflation, and post-retirement mortality) is shown above, albeit these are not intended to represent the upper or lower bounds.

The defined benefit obligation is estimated using the Projected Unit Credit method.

The expected future contributions are £16,869k for the year to 31 March 2024.

25 Transfer of Abellio ScotRail assets and liabilities

From 1 April 2022 the Company has operated under a Grant Agreement with the parent company SRH. Upon commencement of the Grant Agreement, the Company acquired assets and liabilities onto the Company's Balance Sheet, which transferred from the previous franchise ASR as part of the NAS settlement. This resulted in an opening net asset position of £5.1m and this was the net cash consideration amount received by ASR from the Company. Assets and liabilities purchased from ASR included items such as tangible and intangible non-current assets, inventory, prepayments, cash floats, accruals, and deferred income. The assets and liabilities were transferred under an asset transfer agreement at fair value and there was no goodwill arising. As part of the NAS, SRH directed the transfer of a number of leases and contracts to the Company from the previous operator.

The table below sets out the amounts which have been recognised upon transfer.

	Transfer value £ 000
Agreed value - settled in cash	
Non-current assets	10,545
Inventories	13,068
Current assets	1,285
Current liabilities	(19,835)
Total agreed	5,063

26 Ultimate parent and controlling undertaking

The Company's immediate controlling party is Scottish Rail Holdings Limited which is registered in Scotland no. SC548826. Copies of its financial statements are available from Scottish Rail Holdings Limited, Glasgow Queen Street Station Management Suite, Dundas Street, Glasgow, Scotland, G1 2AQ. The shareholder of SRH, and ultimate parent of the Company, is The Scottish Ministers, the address of whom is The Scottish Government, St. Andrew's House, Regent Road, Edinburgh, EH1 3DG.

The largest and smallest company in which the results of the Company are consolidated is that headed by SRH. The consolidated financial statements of this Company are available to the public and may be obtained by writing to Scottish Rail Holdings Limited, Glasgow Queen Street Station Management Suite, Dundas Street, Glasgow, Scotland, G1 2AQ.

27 Events after the Balance Sheet date

There were no significant events after the Balance Sheet date.