

# Hitachi Rail Limited

## Report and Financial Statements

31 March 2020

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COMPANIES HOUSE

**Directors**

A Barr  
L D'Aquila  
J Brewin

**Secretary**

J Mee

**Auditor**

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## Strategic report

The directors of Hitachi Rail Limited (“the company”) present their strategic report for the year ended 31 March 2020.

### Principal activities and review of the business

The company’s principal activities during the year continue to be the provision of total railway system solutions including the manufacture and supply of rolling stock, railway maintenance, traffic management systems and related services.

The company continues to explore opportunities for growth and development through bidding for new projects and potential acquisitions. Senior Management continues to evaluate the potential impacts of the UK leaving the EU and has established a cross-functional working group to monitor and review Brexit developments. This working group has identified and analysed the impact of Brexit on the company’s operations and produced a comprehensive Brexit response plan, which includes contingency plans to minimise any interruption to the company’s operations.

The company uses key performance indicators to measure performance. The directors consider the following indicators to be the key measures of the company’s financial performance:

	2020	2019	Change	Change
	£000	£000	£000	%
Revenue	867,978	1,407,250	(539,272)	(38%)
Operating profit	236,718	416,158	(179,440)	(43%)
Operating cash flow	32,110	80,830	(48,720)	(60%)

The company’s revenue decreased from £1,407,250,000 in the financial year ended 31 March 2019 to £867,978,000 in financial year ended 31 March 2020 in line with the development and delivery of the Intercity Express Programme (IEP) for the Great Western Main Line and East Coast Main Line, as well as the Abellio ScotRail, West of England and TransPennine Express rolling stock projects.

The company’s operating profit decreased from £416,158,000 in the financial year ended 31 March 2019 to £236,718,000 in the financial year ended 31 March 2020 due to activity associated with the aforementioned projects and other operating income of £166,030,000 arising from a gain on the partial sale of the company’s investment in Agility Trains West (Holdings) Limited. One off expenses incurred in relation to strategic development and past acquisitions decreased during the year as shown in note 5.

On 30 April 2019 the company reduced its shareholding in Agility Trains West (Holdings) Limited from 40% to 25%. Further information in relation to investments can be found in note 13.

### Principal risks and uncertainties

The principal risks of the business are associated with the delivery of projects including the Intercity Express Programme, Abellio ScotRail, TransPennine Express and West of England projects. There are a number of performance obligations to be met within these contracts and failure to meet these obligations could give rise to a significant financial impact on the business. In order to mitigate this risk, the company has introduced stringent controls, policies and procedures to ensure that contractual obligations are met in full.

Management have assessed the risks posed by Covid-19 and determined that, although an element of uncertainty exists over the full impact of the virus, any impact will be temporary and our business will return to pre Covid-19 levels. The Government has demonstrated their commitment to the rail industry, providing financial support to Train Operating Companies, guaranteeing the majority of our Operation, Service & Maintenance cashflows. The company had £133,509,000 of cash available on its balance sheet at 31 March 2020 and access to an uncommitted £150,000,000 Hitachi Group Treasury loan facility. Total cash available to the company including the loan facility is far in excess of forecast cash requirements for the year. The company’s ultimate parent Hitachi, Ltd has also provided a letter of support for at least 12 months from the date of approval of these financial statements.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

The company is subject to numerous laws, regulations and standards covering a range of matters including safety procedures, equipment specifications, environmental procedures, employment, insurance coverage and other operating issues and considerations. Non-compliance with any changes made to applicable laws, regulations or standards could adversely impact the company's operations and financial performance. To mitigate this risk, the company closely monitors the impact of changes in the regulatory and legal environment, and ensures it is positioned to respond to any proposed changes.

Additionally, the company's operations expose it to a variety of financial risks that include credit risk, foreign currency risk and liquidity risk. The company's financial risk management objectives and policies are disclosed in note 19 to the financial statements.

**Credit risk:** The company's policies are aimed at reducing any loss that could arise from the risk that one party to a financial transaction would cause a financial loss for that other party by failing to discharge an obligation. Deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the company's debtors are shown in note 15 to the financial statements.

**Foreign Currency Risk:** The company's functional currency is GBP. However it has transactional exposure arising from purchases in currencies other than its functional currency, mainly Euro, Japanese Yen and US Dollar. Potential exposure to foreign currency exchange rate movements are monitored through cashflow forecasts. The company uses forward contracts to minimise the risk of currency fluctuations.

**Liquidity risk:** The company aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets. The company also manages liquidity risk via access to Hitachi group treasury facilities and injection of capital.

### s172 Statement

The Companies (Miscellaneous Reporting) Regulations 2018 (the "Regulations") have been in force with effect from 1 January 2019. The Regulations aim to extend sustainable and responsible governance practice beyond listed companies to private limited companies. The Regulations require Hitachi Rail Limited (the "company") to report how the directors of the company (the "board") have considered their duties under section 172 ("Section 172") of the Companies Act 2006 (the "Act") during the reporting period.

The duty under Section 172 is owed by the directors to the company. In the context of a group of companies, being the Hitachi group of companies, the company's directors owe their primary duty to the company and not the parent company (though of course the parent company is considered as part of stakeholder engagement). The board recognises that the overall framework that Section 172 promotes is to drive the long-term success and economic viability of the company for the benefit of its sole shareholder and other key stakeholders.

For details of the issues, factors and stakeholders the directors consider relevant in complying with Section 172 of the Act, and the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard, refer to the Statement of Corporate Governance Arrangements, Engagement with Employees Statement and Engagement with Suppliers, Customers and Others Statement on pages 8, 19 and 12.

#### *The long-term*

The company and the board strive to create value for its shareholders in the medium and long-term and to take into account interests of their wider stakeholder base and the impact of their decisions on these stakeholders and their interests. In order to achieve this objective the company implements and makes decisions which are aligned with the core values and the set strategy of the Hitachi Group. In line with its purpose, the company's aim is to build a successful and sustainable business for the benefit of its direct and ultimate shareholders and other stakeholders. Throughout the reporting year, the company has made a

## Strategic report (continued)

### s172 Statement (continued)

#### *The long-term (continued)*

number of strategic decisions as part of implementation of its set strategy. The strategic decisions made by the board of directors included:

- securing new business opportunities to generate organic growth,
- business reorganisation, including a reverse merger with another Group subsidiary and conversion of a loan into an investment

Further detail of these strategic decisions can be found in the 'Principal decisions' section on page 5.

The board of directors of the company maintain regular oversight of the risk management arrangements and consider long-term consequences of their decisions with assistance from other functions. The directors are supported by the management who conduct risk assessments and ensure that matters passed to the board to consider have been subject to required approvals and have gone through the appropriate channels. Such assessments, which include detailed financial information, the key risk reporting and the relevant approvals obtained, form part of the board packs circulated to the directors in advance of the quarterly board meetings and support the directors in making informed decisions with interests of the key stakeholders of the company in mind.

#### *Stakeholders*

As noted in the Statement of Corporate Governance Arrangements, the board delegates stakeholder engagement to the senior management and the board has considered the stakeholders that are impacted by the company and its business activities, and consider its employees, suppliers, customers the local community and the shareholder to be its key stakeholders. The company's board also operate within the Hitachi Group's vision and values which includes Wa - acting with harmony and taking into account stakeholders and Makoto - acting with integrity which the board use as part of their guiding approach when making decisions.

The company engages with its employees to discuss employee-related matters and to provide information via various channels maintained by a dedicated internal team. This ongoing engagement and line of communication is enabled through the use of employee surveys, the Railway Systems Business Unit intranet, webinars, social media channels, business performance updates and presentations, among other things.

The impact of this engagement is detailed in the following section.

#### *Decision making process*

The main scheduled board meetings are held quarterly, and consider standing agenda items, with formal board packs containing various reports and papers to provide the board with the most relevant and high quality of information to consider as part of their decision-making process. board papers are prepared on a template supported by a standardised agenda to provide the board with the right levels of information to consider all relevant issues before making a decision and ensure consistency in the way the required information is presented to the directors ahead of each meeting. The company also holds regular ad hoc meetings of the board to consider key and urgent matters between the formal quarterly meetings. The purpose of the ad hoc meetings is to consider and approve urgent matters and these meetings are less formal than the quarterly meetings of the board.

To support effective decision-making of the board, the directors take into account various group-wide governance policies and practices, including the Delegation of Authority Matrix, Code of Ethics, Anti-Bribery and Corruption Policy and the Environmental Policy, (the "Hitachi Rail Policies"), when making decisions on behalf of the company, together with established practices.

#### *Culture*

Hitachi, Ltd established its vision and mission across the organisation with a clearly defined set of core values placed at the heart of the company's business. The company is committed to cultivating the core values of harmony, sincerity and pioneering spirit which were set at group level and the company strives

## Strategic report (continued)

### s172 Statement (continued)

#### *Culture (continued)*

to embed these core values within its culture through its strategic and responsible approach to business. The company and the board of directors ensure that the Hitachi Rail business implements the group-wide strategy and make decisions with sustainable growth in mind by continuously enhancing its technological capabilities and working towards building trusting relationships with its customers, employees, suppliers and other stakeholders. Through adopting and 'living' the core values the company is able to set a clear course for its business and fulfil its purpose in the long-term. The company's culture and its values are further reinforced by training on how to adhere to the organisation's policies and procedures and maintain a continuously high standard of business ethics and making sure that the working environment is built on mutual respect and tolerance. Details of the key strategic decisions and developments taken by the company and its board can be found in the 'Principal decisions' section.

#### *Training*

As mentioned in the Statement of Corporate Governance Arrangements on page 8, the new directors receive an induction in to the role and both new and current directors have an opportunity to receive various training relevant to their roles within the board and the wider organisation. The directors also, as employees of the Hitachi Group, are required to undergo annual training, including on the code of conduct and key corporate compliance policies.

This was the first year the directors were subject to comprehensive Section 172 duties and wider regulatory requirements. The new requirements were covered in the period refresher training undertaken by the directors and were provided with relevant informative material including new developments.

#### *Board composition*

The current composition of the board is described in detail in the Statement of Corporate Governance Arrangements on page 8, where the table with biographical information can be found. The current directors, in addition to their roles as statutory directors of the company, also occupy key positions within the wider organisation and ensure ongoing oversight of various segments of the business. The level of seniority, extensive business and industry experience and in-depth understanding of the company's and the wider organisation's affairs enable the directors to identify the key stakeholders of the company and to recognise the nature and extent of the likely consequences, including the long-term impact, of their decisions on these stakeholders.

#### *Principal decisions*

Principal decisions, defined as those which: (i) are linked to matters of strategic importance; (ii) are commercially material matters of financial or operational importance; and (iii) impact key stakeholders are reserved for the board and include:

- dividends;
- changes to key investments owned by the company;
- substantial reorganisation projects;
- business contracts above certain value;
- changes to the company's strategic objectives;
- substantial changes to the company brand; and
- matters that will substantially affect the company's employees.

In making its decisions, the board is required to consider the outcome of any stakeholder impact assessment that has been undertaken to support it making that principal decision.

## Strategic report (continued)

### s172 Statement (continued)

#### *Principal decisions (continued)*

The principal decisions made during the year were:

New substantial business contracts and UK investment	<p>In 2019, the company won several new business contracts for the manufacture, supply, service and maintenance of new trains of substantial value:</p> <ul style="list-style-type: none"><li>- investment of c. £400m by Rock Rail and Abellio in Hitachi trains for their East Midlands railway operations;</li><li>- investment of c. £350m by Rock Rail and First Trenitalia in Hitachi trains for their intercity Avanti West Coast operations.</li></ul> <p>Linked to the new business contracts, the company entered into significant local investment in the UK to increase the range of production activities that can take place at the Newton Aycliffe manufacturing site. The directors considered the stakeholders, including their employees and felt that the investment in the UK would benefit their stakeholders, as well as act in the best interest and deliver long-term sustainable value for the company.</p>
Reverse merger and loan conversion.	<p>As part of a business reorganisation, involving Hitachi Rail Limited and other group entities, the company and Hitachi Rail Italy Holdings converted loans for the total value of €1.47bn into capital reserve in equity in support of the merger. This decision was taken following a €2bn investment in Hitachi Rail STS and the company undertook the issuance of a loan for €1bn. This was to fund significant capital investment to support the long-term development of the company and the group. The directors considered the significance of the decision, including the financial impact and felt that it supported the company's long-term strategic ambitions, and therefore approved the decision.</p>

On behalf of the board



J. Brewin  
Director  
27 August 2020

## Directors' report

The directors of Hitachi Rail Limited ("the company") present their directors' report and financial statements for the year ended 31 March 2020.

### Results and dividends

The profit for the year after taxation amounted to £278,338,000 (2019 – £405,907,000). The directors do not recommend a final dividend (2019 – £nil).

### Future developments

The company intends to trade in the same manner in the forthcoming year, operating as a total railway system supplier offering rolling stock (including manufacturing), railway maintenance, traction equipment, signalling, traffic management systems and related services.

### Events since the balance sheet date

On 14 May 2020 the company entered into a loan agreement with Hitachi International Holland B.V. which resulted in the repayment of €655,000,000 to Hitachi, Ltd on 15 May 2020 and a new loan denominated in GBP and payable to Hitachi International Holland B.V. in the amount of £573,000,000.

On 6 August 2020 the company signed an agreement to acquire Perpetuum Limited, a technology firm pioneering digital technology to advance and digitise train maintenance. The transaction is subject to relevant anti-trust clearance being obtained, with closing expected in the autumn of 2020.

### Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in this report and in the strategic report. In addition, note 19 to the financial statements includes the company's policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

In assessing whether the financial statements for the company should be prepared on a going concern basis, the directors considered the expected impact of Covid-19 on the rail industry and cash and facilities available to the company over the next 12 months.

The immediate impact of Covid-19 has seen employees working from home where possible, and implementation of a number of measures to satisfy social distancing requirements and safe working practices in accordance with government guidelines at our offices, sites and depots. It is now expected that some trains will be accepted later than scheduled, meaning the impact on cash will be minimal and only a result of a change in timing. The directors' confidence in the continued cash-generating potential of the Operation, Service & Maintenance side of our business is bolstered by the commitment shown by the government so far to the train operating companies (TOC's) we serve, specifically in the reinstating of emergency measurements whereby the financial risks of TOC's is transferred to the government.

Our current cash position is strong enough to absorb any changes in the timing of milestone receipts from customers originally forecast for the year and the impact of potential delays in the awarding of bids or new projects over the next 12 months. The company had £133,509,000 of cash available on its balance sheet at 31 March 2020 and access to an uncommitted £150,000,000 Hitachi Group Treasury loan facility. Total cash available to the company including the loan facility is far in excess of forecast cash requirements for the year. The company's ultimate parent Hitachi, Ltd has continually demonstrated its financial commitment to the company by investing substantial funds and a issuing a letter of support for at least 12 months from the date of approval of these financial statements. The directors are satisfied that the ultimate parent Hitachi, Ltd. has the ability to provide this support, should it be required. In reaching this conclusion they considered the strategies that Hitachi, Ltd has put in place to strengthen its liquidity position in response to the Covid-19 pandemic.

Given the strong cash position of the company and the continued parental support, the directors deem it appropriate to prepare the financial statements on a going concern basis.



## Directors' report (continued)

### Directors

The directors who served the company during the year and subsequently were as follows:

R Hirayanagi	(resigned on 01 July 2019)
K Boswell	(resigned on 26 September 2019)
M Manfellotto	(resigned on 30 September 2019)
Y Araki	(resigned on 01 February 2020)
A Barr	(appointed on 26 September 2019)
L D'Aquila	(appointed on 26 September 2019)
J Brewin	(appointed on 21 January 2020)

### Statement of Corporate Governance Arrangements

#### *Introduction*

The board of the company presents its Statement of Corporate Governance Arrangements for the period to 31 March 2020. This statement includes a review of corporate governance arrangements which, together with the risk management processes, acts as the foundation to our business and the decisions we make. The board is committed to the creation of long-term sustainable value for the benefit of our sole shareholder, Hitachi, Ltd, and wider stakeholders, as discussed in the Engagement with Suppliers, Customers and Others Statement on page 12. The board were supported with their decisions by the governance, values and culture within the company, Hitachi's global Railway Systems Business Unit and the wider Hitachi Group.

The Regulations (as defined in the Section 172(1) Statement) aim to extend sustainable and responsible governance practice beyond listed companies to private limited companies. As a large private company which meets the relevant threshold, the company is required to disclose its corporate governance arrangements, including whether it follows any formal corporate governance code. As a private limited company the company has chosen not to apply the UK Corporate Governance Code or to report against the Wates Principles. Instead, the company applied its own corporate governance practices and opted to use them as their benchmark for the purpose of this disclosure. After the financial year the company undertook a governance review ("the Review") in light of the new corporate governance requirements for private businesses, focussing on the directors' approach to decision-making as well as delegated decision-making, its stakeholder engagement mechanisms, the information the board receives and director training; and is in the process of implementing recommended changes to support its governance practises further.

The company is also subject to additional tax reporting requirements aimed at enhancing transparency and accountability, namely the Senior Accounting Officer (SAO) rules and Publication of Tax Strategy requirements in the UK. The company makes sure that these requirements are met and ensures that there are adequate measures in place to comply with them, one of these measures is the Hitachi Group Strategy for UK Tax Management (the "UK Tax Strategy"). The UK Tax Strategy is set at a regional level and applies to the majority of Hitachi UK resident companies, which includes the company. The UK Tax Strategy regulates all key aspects of the tax compliance requirements including:

- Approach to risk management and governance;
- Attitude to tax planning;
- Level of risk appetite suitable for each of the UK Group companies;
- Approach of the UK Group companies towards HMRC.

## Directors' report (continued)

### Statement of Corporate Governance Arrangements (continued)

#### *Purpose*

The purpose of the company is to contribute to society through continuous development of the highest standard of rail transport solutions with respect and commitment to its employees, suppliers, customers and other stakeholders at the heart of its business. The company has a number of group wide and company specific policies put in place to support execution of its purpose and embed its values in respect of everyday business operations and across the whole organisation.

The Hitachi Group mission is to contribute to society through the development of superior, original technology and products. The Hitachi Group values are harmony, sincerity and pioneering spirit. The Hitachi Group vision is to deliver innovations which answer society's challenges. With our talented team and proven experience in global markets, we can inspire the world. These values are embedded throughout the Hitachi Rail culture and organisation and support decision-making, as well as underpin the approach taken by management.

In 2019 the company made major strategic decisions and entered into implementation stages of a number of projects. In particular, the company was awarded several new substantial business contracts for the manufacture, supply, service and maintenance of new trains and carried out in-depth reorganisation of the business, including a reverse merger with another Group subsidiary and conversion of a loan into an investment. More information on principal decisions taken by the company during the reporting period can be found in the s172 Statement on page 5 to 6.

#### *Board composition*

The current composition of the board of the company was formed with a focus on the right balance of skills, backgrounds, experience and knowledge required to compliment the promotion of the long term success of the company and to identify the impacts of the board's decisions on the company's key stakeholders, and where relevant, the likely consequences of those decisions in the long-term. The current board directors also occupy key roles within Hitachi's global Railway Systems Business Unit, including as the Group CEO and the Group CFO meaning that individual directors have sufficient expertise and knowledge of the company and the wider organisation in order to make a valuable contribution that is aligned to the company's activities and purpose. Currently, the board comprises members with a wealth of experience and qualifications enabling a more diverse thought process to its decision making, which helps identify the impacts of the board's decisions on the company's key stakeholders.

During the year Karen Boswell, the UK Managing Director of Hitachi Rail stood down from the board, as part of an internal reorganisation of roles and responsibilities. James (Jim) Brewin was appointed to the board on 20 January 2020 as Karen's replacement and acts as the Country Leader for Hitachi Rail in the UK.

Below are brief biographical introductions of the current directors of the company:

Andrew Barr – Group Chief Executive Officer
Andrew Barr was appointed in April 2019 as Vice President and Executive Officer of Hitachi, Ltd., and Group CEO of Hitachi Rail, a global, full-service provider of rail services and products, with a presence in 30 countries and over 14,000 colleagues.

## Directors' report (continued)

### Statement of Corporate Governance Arrangements (continued)

#### *Board composition (continued)*

<p>Andrew Barr – Group Chief Executive Officer. Continued.</p> <p>Starting his career in rail in 1990 with London Underground Limited, Andrew held posts with UK train operator GNER, at Bombardier Transportation and with the Strategic Rail Authority. He went on to be appointed as Head of Maintenance Delivery and later COO at Hitachi Rail Europe, before being appointed CEO of the global business, Hitachi Rail STS, based in Italy. Andrew currently serves as Vice President and Executive Officer of Hitachi, Ltd., and Group CEO of Hitachi Rail.</p>
<p>Luca D'Aquila – Group Chief Financial Officer</p> <p>Luca D'Aquila is Group CFO, and responsible for Strategy, Risk Management, Legal and IT at Hitachi Rail. He joined the company in 2010 as SVP Chief Financial Officer, Risk Mgmt., IT of the Italian business. Since then he has held the positions of Deputy Global CFO, SVP CFO, Risk Mgmt. &amp; IT, before being promoted to Group CFO, in 2018.</p> <p>Luca has extensive background in the manufacturing industry, prior to joining Hitachi Rail; Luca worked as Chief Financial Officer at BREDAMENARINIBUS S.P.A. and Head of Corporate Planning &amp; Controlling at FINCANTIERI S.P.A.</p> <p>He holds a degree in Business Economics from Federico II University, Naples, as well as a Masters in Finance and Management Controlling from Finmeccanica, Rome, 1991.</p>
<p>James Brewin - Country Leader, UK</p> <p>Jim is Hitachi Rail's lead for the UK and Ireland, with overall responsibility for managing sales, projects, manufacturing and operations.</p> <p>He has been at Hitachi Rail for 12 years and held a variety of senior global, business development and project management roles. He was part of the technical team that delivered the Class 395 Javelin into passenger service in 2009 and supported the development of the diesel bi-mode solution for the InterCity Express Project contract award in 2012.</p> <p>Most recently, as UK Projects Director, he has been leading the successful entry into service of our new fleets, including AT300's for London North Eastern Railway, TransPennine Express and Hull Trains and the completion of the Class 385 project for Abellio ScotRail.</p>

## Directors' report (continued)

### Statement of Corporate Governance Arrangements (continued)

#### *Board composition (continued)*

Jane Mee – General Counsel and Company Secretary

Jane is responsible for providing legal advice and support as well as assuming governance and legal compliance responsibilities for Hitachi Rail in the UK. Jane advises on all aspects of the rail business, providing legal counsel on a wide range of business affairs.

With over 20 years' experience in the field of law, Jane also has extensive knowledge of rail, having previously held positions with Bombardier and London Underground Ltd. She has in-depth experience in commercial and legal aspects of PPP/PFI arrangements and complex engineering infrastructure contracts.

#### *Training*

The company ensures that newly appointed directors and members of the senior management are provided with induction materials, the content of which is dependent on individual experience, skills and the role to be assumed. The board members have continuous access to formal training sessions including both fundamental compulsory compliance courses (competition law and health & safety) as well as elective additional training to develop skills required to perform their roles. In 2020, the directors and senior management are scheduled to receive training on their statutory and fiduciary duties under the Companies Act 2006 (the "Act"), in particular the duty under the Section 172 of the Act, as well as other broader regulatory responsibilities, in particular:

- Modern Slavery Act;
- Anti-Money Laundering Regulations;
- General Data Protection Regulations; and
- Criminal Finances Act 2017.

The company secretary is responsible for keeping the board up to date with regulatory changes, statutory compliance requirements and conducting training for directors to support them in discharging their statutory duties and responsibilities. The directors and senior management are also supported by various group-wide governance policies and practices, including the Code of Conduct. When additional training is required, training arrangements are made and further materials are made available on request.

In addition to the directors, the meetings are also attended by operational specialists in various fields with the aim to provide the board with specialist advice and deliver presentations on the matter at hand in support of the board's considerations and decision-making.

#### *Delegations*

The company has not formed any committees of the board and the directors have not formally delegated any specific responsibilities to any committees, group functions or individuals. The company does however, benefit from, and is subject to, decisions and recommendations made the Senior Executive Committee of Hitachi, Ltd., the sole shareholder of the company and the ultimate parent company within the Hitachi Group, and by the committees of the global Railway Systems Business Unit. The Senior Executive Committee of the business unit is supported by several sub-committees, namely:

- Audit and Risk Committee
- Investment Committee
- Remuneration and Nomination Committee

## Directors' report (continued)

### Statement of Corporate Governance Arrangements (continued)

#### *Delegations (continued)*

Such decisions and their impact on the company and the company's stakeholders are then considered and, where appropriate, approved or ratified by the board during the formal quarterly meetings and the considerations are documented in the form of minutes. The decisions made by the board are implemented by senior management within the company and supporting staff.

In terms of authorisations to approve financial matters of key importance, the company adopted an Authorisation Matrix setting out financial thresholds, sign off authorisations, signatories and categories of matters to be considered, to include:

- Capital expenditure;
- New and existing contracts;
- HR matters;
- Donations;
- Litigation costs;
- Bids and projects;
- Finance-related matters;
- Advisory costs; and
- Other.

### Stakeholder relationship and engagement

The directors regularly engage with their stakeholders as part of their operational roles within the company. The directors also consider their stakeholders as part of their directors' duties when making decisions. As part of the Review the company is implementing additional stakeholder impact assessment procedures to ensure that they receive sufficient stakeholder information when making principal decisions. The directors also delegate stakeholder engagement to other members of operations management and various informal committees, as detailed further in the Engagement with Employees Statement and Engagement with Suppliers, Customers and Others Statement.

### Engagement with Suppliers, Customers and Others in a Business Relationship with the company Statement

The company considers its employees, suppliers, customers and its sole shareholder to be its key stakeholders. The company aims to build and maintain lasting relationships with its key stakeholders in the countries where it operates. The company engages with its key stakeholders and considers their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision-making.

## Directors' report (continued)

### Engagement with Suppliers, Customers and Others in a Business Relationship with the company Statement (continued)

The table below describes how the directors have had regard to the need to foster relationships with its key stakeholders, in a business relationship with the company, and the effect of that regard, including on the decisions taken during the reporting period:

Key stakeholders	Stakeholders' interests	How we have fostered relationships	How the fostering of relationships impacted decision making
<b>Employees</b>	For details on how the company has engaged with its employees, how the directors had regard to those employees' interests, and the effect of that regard, including on the decisions taken during the reporting period, refer to the Engagement with Employees Statement in the directors' report (details of which are set out on pages 19 to 20.		
<b>Unions</b>	<p>To receive clear communications in relation to any matter where the company is legally required to consult. Any consultation processes are open and transparent.</p> <p>To receive regular information about the strategic direction and financial status of the company.</p> <p>To be part of an ongoing relationship based on mutual respect.</p>	<p>The company established and maintains its relationship with the union(s) by:</p> <ul style="list-style-type: none"> <li>regular informal dialogue with both external and internal union representatives; and</li> <li>more formal consultation held via scheduled Employee Forums where future business plans and information are shared.</li> </ul>	<p>The board, and the HR department, are provided with regular reports on consultations, when required.</p> <p>When considering people related decisions the board considers the interest of both their employees and the stated interest of the Union(s) where they represent employees.</p>

## Directors' report (continued)

<p><b>Suppliers</b></p>	<p>To receive a clearly stated set of requirements to understand the company's needs and expectations.</p> <p>To receive regular support from the company to improve suppliers' business management system and effectively avoid any defects and operational issues.</p> <p>To be part of a fair and respectful tender and supplier selection process.</p> <p>To be part of an ongoing supplier relationship based on mutual respect and treating each other as valued business partners.</p>	<p>The company established and maintains a number of group-wide and company-specific policies to ensure fair and respectful treatment of its actual and potential suppliers across the organisation. The policies clearly set out the company's expectations in relation to the quality of supplier products and services delivered and requirements that need to be met to ensure smooth and mutually beneficial business relationship. The list of relevant policies includes:</p> <ul style="list-style-type: none"> <li>• Supplier Quality Manual;</li> <li>• Supplier Code of Conduct;</li> <li>• Anti-Bribery and Corruption Policy;</li> <li>• Hitachi Rail Vendor Privacy Policy;</li> <li>• Security Policy;</li> <li>• Environmental Policy;</li> <li>• Sustainable Procurement Policy;</li> <li>• Hitachi Group Code of Ethics and Compliance;</li> <li>• Hitachi Group Human Rights Policy.</li> </ul>	<p>As part of the Review undertaken by the company in 2020, the board will be provided more detailed stakeholder analysis going forward to further support their consideration of their stakeholders when making decisions.</p> <p>In light of the coronavirus pandemic (COVID-19) in March 2020 the company published external communications through a variety of channels to keep the company's wider stakeholders informed and aware of the latest developments and to address the impact of COVID-19 on the company and its business operations. This included two announcements to the company's wider stakeholder base to explain the impact of COVID-19 on the company's wider business operations.</p>
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## Directors' report (continued)

<p><b>Customers</b></p>	<p>To provide the company's customers with the highest quality products and services combined with on time delivery.</p> <p>To demonstrate excellence in safety, service reliability and availability.</p> <p>To provide proven Japanese and European technology and incorporate design evolution, to improve train performance i.e. acceleration, journey times and energy efficiency. In addition as part of our design process, we utilise a whole life cost approach to ensure long term competitiveness in the market place.</p> <p>To build long term and collaborative relationships with both customer and suppliers. Trust and teamwork plays a key part in our interactions and is consistent with our Hitachi corporate values.</p>	<p>The company established and maintains a number of group-wide and company-specific policies aimed at ensuring ongoing security of customer data, high standards of safety and quality of the products and services and continued confidence and trust of our customers. The list of relevant policies includes:</p> <ul style="list-style-type: none"> <li>• Anti-Bribery and Corruption Policy;</li> <li>• The Code of Conduct;</li> <li>• Business Assurance / Quality;</li> <li>• Export Control Policy;</li> <li>• Competition Law Policy;</li> <li>• Data Protection Policy.</li> </ul> <p>Examples of ongoing engagement includes:</p> <ul style="list-style-type: none"> <li>• Periodic project meetings and contract reporting;</li> <li>• Site meetings with customers;</li> <li>• Internal tender process meetings;</li> <li>• Participation in trade fairs and conferences</li> <li>• Stakeholder engagement with Government and civil servants;</li> <li>• Interaction with customers and senior figures in the railway industry.</li> </ul>	<p>The board is provided with regular reports on the delivery of obligations under customer agreements by a dedicated team. The information received supports effective decision making by the board and considering long-term consequences on customer satisfaction.</p>
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## Directors' report (continued)

<p><b>Community and environment</b></p>	<p>To manufacture and deliver high quality products and services in an energy efficient and environmentally responsible manner.</p> <p>To conduct business in a manner to allow to minimise negative impact on the surrounding area and be respectful and conscientious of the environment.</p> <p>To take into account the interest of the local community when considering future investments and business decisions.</p>	<p>The company established and maintains a number of group-wide and company-specific policies to promote sustainable and environmentally friendly business and operational practices.</p> <p>The company has an Environmental Management System (EMS) in place that is certified to ISO14001:2015.</p> <p>The company also undertakes regular audits both internally and by external parties, the results of which are fed back to the board to further support engagement.</p> <p>The company, through their divisional teams, is actively working to continuously improve environmental performance and minimise the environmental impact. This has included:</p> <ul style="list-style-type: none"> <li>• Development and launch of an internal Environmental Awareness module for colleagues;</li> <li>• Appointment of a national waste service provider, to help to standardise how we manage and monitor waste, and identify opportunities to reduce the volume of waste we produce.</li> </ul>	<p>The board is provided with regular reports on environmental impact of the company's business operations. The information received supports effective decision making by the board and considering long-term consequences on the environment and local communities.</p>
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## Directors' report (continued)

<p><b>Community and environment (continued)</b></p>		<ul style="list-style-type: none"> <li>• Planning installation of automatic meters for gas supplies;</li> <li>• Installation of automatic water meters on all but North Pole facility</li> <li>• Running a comprehensive programme of replacing fluorescent light fittings with LED equivalents at Newton Aycliffe, which will more than half the power consumption of these fittings.</li> </ul> <p>The company also supports local communities where it works and is dedicated to retaining local skills to support regional economies. With a focus on inspiring the next generation into a career in STEM, the company, as part of wider group initiatives, have partnered with Primary Engineer and Engineering Development Trust supporting programmes for children across the UK.</p> <p>The company was a founding partner of South Durham UTC – a specialist technical college for 14-18 year olds where the company collaborated to shape the curriculum, offer work experience and support students with mentoring.</p>	
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## Directors' report (continued)

<b>Shareholder</b>	<p>The company is 100% owned by Hitachi, Ltd</p>	<p>Group Treasury, Tax and Finance functions, in conjunction with the senior management, make recommendations to declare dividends, coordinate and evaluate the amount of dividend and impact at local level, which is then considered by the board.</p> <p>The company reports to its shareholder on a regular basis in the form of its financial statements, monthly and quarterly board reports and business reviews, presentations to the board of the Group, business plans and strategic plans as well as risk reporting.</p>	<p>The company's strategy is to pursue strategic growth to create long term value for its shareholder.</p> <p>The receipt of this information, and the coordination with Group functions, aids the board when considering whether to declare dividends, the amount of dividend and impact at local level.</p> <p>Dividends, which are categorised as a principal decision, were considered and however were not subject for approval this financial period.</p>
<b>Regulator(s)</b>	<p>To receive regular feedback on any consultations:</p> <p>To have an open and honest relationship with the company where Regulation and Guidance can be discussed.</p>	<p>The company's directors have delegated much responsibility for engagement with the Regulators to Stephen Long BSc, MSc, CMIOSH.</p> <p>The company keeps the Regulators informed of any significant changes to the company.</p>	<p>These relationships build joint confidence and trust allowing broader discussions to take place in a safe environment where the objectives of potential decisions can be challenged and tested without regulatory pressure being applied. This leads to smoother operational introduction and delivery.</p>

## **Directors' report (continued)**

### **Employee Engagement Statement**

The company identifies its employees as its key stakeholders and recognises their importance to the long-term success of the company. Throughout the year, the directors engaged with the company's employees in various ways to provide information on matters of concern to them as employees, to take into account their views in making decisions likely to affect their interests, to encourage involvement in the company's performance and to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

### **Employees' interests**

Providing information on matters of concern to them as employees and to achieve an awareness of factors affecting the performance of the company, such as quarterly results, strategy, sustainability, training, annual performance related bonus scheme, career development and diversity and inclusion.

Being consulted on a regular basis so that the views of employees can be taken into account in the decisions made by the directors which are likely to affect their interests.

### **How the Directors have engaged with employees**

The directors have delegated much of the engagement to Group's employee engagement mechanisms, including the Group intranet, Group social media channel, employee forums, regular team and one-to-one updates provided by divisional leaders and line managers. The Group HR function, to whom the directors have delegated training responsibility, ensure that training and career development sessions to employees are provided.

Employees are kept informed by ad hoc updates on key developments, changes to strategic objectives and priorities, updates on progress of ongoing projects, updates on Brexit developments and its impact on the business and workforce, updates and announcements.

Employees also regularly receive emails from the Group CEO and UK Country Lead as part of the company's wider engagement strategy,

The company's employees are actively encouraged to participate in the group annual survey called Insight. The results of the survey are reported back to the board for consideration.

The company also publishes annually the company's Gender Pay Gap Report, as well as communications around how and what improvements the company is trying to progress.

In relation to the COVID-19 pandemic the company formed the Hitachi Rail UK COVID-19 Task Force in April 2020, led by Jim Brewin, and this Task Force undertook engagement with the employees and enacted decisions made which included:

1. Closure of the company's offices and operational locations to safeguard Hitachi Rail's people;
2. Introduction of new working arrangements to enable the workforce to work remotely or under strict safety precautions,

## Directors' report (continued)

### How the Directors have engaged with employees (continued)

3. Publishing internal and external communications through a variety of channels to keep the company's employees informed and aware of the latest developments and address their impact of COVID-19 on the company and its business operations.

4. Introduced enhanced safety measures to ensure safety of Hitachi's customers and workforce.

### How the Directors have had regard to employee interests, and the effect of that regard

The company strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race or ethnic origin, disability, gender, sexual orientation, age, religion or belief.

The company is committed to valuing the diversity of its people and it monitors and reports internally on aspects such as gender and age equality. The company and the group are strongly dedicated to ensuring equal pay for all workforce across the organisation regardless of gender, race or ethnic origin, disability, gender, sexual orientation, age, religion or belief and regularly report on both group and legal entity level.

During the year the company undertook a redundancy programme for certain groups of staff. The directors delegated the running of the schedule to their HR team. The employees, as well as their representatives, were regularly consulted. The company undertook the programme as part of its strategic objectives to ensure long-term value creation and to continue operating in a financially sustainable way.

### SECR disclosure

#### *Reasons for Change in Emissions*

This is the first year of reporting under SECR and forms the base year for reporting. No changes in emissions are therefore reported at this time.

#### *Business travel*

Activities relating to travel are limited to company owned vehicles and employee owned vehicles on business use.

#### *Quantification and Reporting Methodology*

HM Government *Environmental Reporting Guidelines: including streamlined energy and carbon reporting guidance (March 2019)* has been used for the collation of data sources and reporting of emissions. *UK Government GHG Conversion Factors for company Reporting* has been used for the reporting of emissions, using the 2019 version.

Fugitive emissions from refrigerants adopts the screening method in annex C of the guidance.

#### *Organisational boundary*

The financial boundary of the business has been used to determine the reporting boundary.

#### *Operational scope*

Measurements include mandatory scope 1, 2 and 3 emissions. Negligible estimates have been made with the collation of data.

#### *Exclusions*

There are no data exclusions in this reporting period.

#### *Base Year*

The base year is 2019-20. This is the first year for which a full reliable dataset has been collated and is typical in respect of business operations.

## Directors' report (continued)

### SECR disclosure (continued)

The recalculation policy is to review the base year against current reported emissions for relevant changes which meet a significance threshold value of 5% of base year emissions.

#### *Target setting & Responsibilities*

The emissions reduction target is to reduce gross, scope 1 and 2 emissions in tonnes of CO<sub>2</sub>e per employee by 0.5% per year. The performance against target will be reviewed on a quarterly basis during the reporting year.

#### *Intensity Measurement*

The metric chosen for reporting is gross scope 1, 2, and 3 emissions in tonnes of CO<sub>2</sub>e per Full Time Equivalent (FTE) employee as this is closely matched to our business operation. The intensity measurement will be reported each year with comparison made against previous year to highlight performance.

#### *Carbon Offsetting*

No carbon offsetting is applicable to the 2019 to 2020 period.

SCOPE 1 CO <sub>2</sub> e (tonnes)	% estimated	Specific exclusions, % this represents for relevant scope (excluding geographic exclusions) & give an explanation.	2019-2020
Natural Gas consumption	0	None	1,454.57
Owned transport	0	None	178.02
Liquid fuels used on site	0	None	2,840.39
Fugitive emissions (refrigerant gases)	0	None	66.41
<b>Total Scope 1</b>	<b>0</b>		<b>4,539.39</b>

SCOPE 2 CO <sub>2</sub> e (tonnes)	% estimated	Exclusions	2019-2020
Electricity	0	None	5,694.77
<b>Total Scope 2</b>	<b>0</b>		<b>5,694.77</b>

SCOPE 3 CO <sub>2</sub> e (tonnes)	% estimated	Exclusions	2019-2020
Business travel activity: private vehicles, rental car trips.	0	None	70.78
Electricity transmission and distribution emissions.	0	None	483.48
<b>Total Scope 3</b>			<b>554.26</b>

<b>TOTAL CO<sub>2</sub>e Scope 1, 2, 3 Gross emissions (tonnes)</b>		<b>10,788.42</b>
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## Directors' report (continued)

### SECR disclosure (continued)

Intensity Metric (Gross emissions)	Exclusions	2019-2020
Scope 1, 2, 3 emissions / (FTE) employee	None	4.247

### Energy Efficiency Actions

In the first reporting year, any activities to improve energy use and reduce emissions will not have quantitative data to measure the positive environments impact. Any activity with a positive outcome will be incidental, with its overall impact not measurable.

For year 2 and beyond, measures will be put in place to identify reductions where measurement and quantitative analysis is possible.

During the 2019 to 2020 financial period the following energy efficiency improving measures have been carried out company-wide:

- Development and launch of an Environmental Awareness module, including a section on resource usage;
- Planned installation of AMR meters for gas; and
- Installation of AMR water meters on all but North Pole facility.

In addition to the company-wide actions, the following improvement measures were implemented at the sites detailed below:

#### *Newton Aycliffe*

A comprehensive programme of replacing T5 fluorescent light fittings with LED equivalents is ongoing. This will more than half the power consumption of these fittings.

#### *Doncaster*

- Wheel lathe building air compressor was previously running 24/7. New controls were fitted so it only runs for a 2hr period when required;
- Strip curtains were fitted to the train entrances in the wheel lathe building to prevent drafts and energy loss when there is a train in the building;
- Rapid rise roller shutter doors were fitted in the maintenance shed stores area to reduce drafts and energy loss; and
- Door access control was installed to the maintenance shed stores area pedestrian door to save having to open the roller shutter door for small deliveries.

Data used to calculate the energy and carbon emissions has been completed by and quality control checked by qualified energy engineers, registered as MEI and ESOS Lead Assessors.

### Political and charitable contributions

The company made no political donations and no charitable donations during the year (2019 – £nil).

### Directors and indemnity arrangements

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving the directors' report.

## Directors' report (continued)

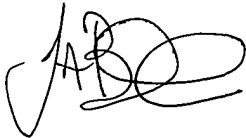
### Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Re-appointment of Auditor

The company has dispensed with the requirement to hold an Annual General Meeting in accordance with the Companies Act 2006. Ernst & Young LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

On behalf of the board



J. Brewin  
Director  
27 August 2020



## Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the directors' Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

# Independent auditor's report

to the members of Hitachi Rail Limited

## Opinion

We have audited the financial statements of Hitachi Rail Limited for the year ended 31 March 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statements of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

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

## Basis for opinion

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

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

## Emphasis of matter – COVID-19

We draw attention to note 1 "Going Concern" which describes the impacts the company is facing as a result of Covid-19. Our opinion is not modified in respect of this matter.

## Conclusions relating to going concern

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

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

# **Independent auditor's report (continued)**

to the members of Hitachi Rail Limited

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

## **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

# Independent auditor's report (continued)

to the members of Hitachi Rail Limited

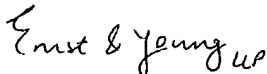
## Auditor's responsibilities for the audit of the financial statements

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

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

## Use of our report

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



Lloyd Brown (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
Date 2 Sept 2020

## Income statement

for the year ended 31 March 2020

	Notes	2020 £000	2019 £000
<b>Revenue</b>	4	867,978	1,407,250
Cost of sales		<u>(728,437)</u>	<u>(1,221,193)</u>
<b>Gross profit</b>		139,541	186,057
Administration expenses		(57,232)	(76,799)
Other operating income		166,030	316,658
Other operating expense		<u>(11,621)</u>	<u>(9,758)</u>
<b>Operating profit</b>	5	236,718	416,158
Finance revenue	8	67,515	47,217
Finance costs	9	<u>(6,564)</u>	<u>(20,736)</u>
<b>Profit before taxation</b>		297,669	442,639
Tax charge	10	<u>(19,331)</u>	<u>(36,732)</u>
<b>Profit for the financial year</b>		<u>278,338</u>	<u>405,907</u>

All amounts relate to continuing activities.

## Statement of comprehensive income

for the year ended 31 March 2020

	2020 £000	2019 £000
Profit for the financial year	278,338	405,907
Other comprehensive income:		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Net loss on cash flow hedges	(1,874)	(4,466)
Effect of remeasurement on defined benefit obligation	3,373	–
Income tax effect of net loss on cash flow hedges	361	838
Income tax effect of remeasurement on defined benefit obligation	<u>(641)</u>	<u>–</u>
Net other comprehensive income/(loss) to be reclassified to profit and loss in subsequent periods	<u>1,219</u>	<u>(3,628)</u>
<b>Total comprehensive income for the year</b>	<u>279,557</u>	<u>402,279</u>

## Statement of financial position

at 31 March 2020

		2020	2019
	Notes	£000	£000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	91,233	88,306
Intangible assets	12	15,340	17,086
Investment	13	1,997,099	675,208
Trade and other receivables	15	44,914	22,333
Financial non-current assets	17	164,041	211,471
Deferred tax asset	10	1,225	–
		<u>2,313,852</u>	<u>1,014,404</u>
<b>Current assets</b>			
Inventories	14	81,027	84,382
Trade and other receivables	15	74,460	141,714
Contract assets	15	216,124	533,478
Corporate tax	10	–	397
Prepayments and accrued income		2,022	3,654
Financial assets	17	304	1,265,864
Cash and cash equivalents		<u>133,509</u>	<u>161,798</u>
		<u>507,446</u>	<u>2,191,287</u>
<b>Total assets</b>		<u>2,821,298</u>	<u>3,205,691</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued share capital	21	878,181	878,181
Cash flow hedge reserve		862	2,375
Pension reserve		2,732	–
Retained earnings		<u>746,998</u>	<u>468,660</u>
<b>Total equity</b>		<u>1,628,773</u>	<u>1,349,216</u>
<b>Non-current liabilities</b>			
Employee benefits	22	5,139	616
Deferred revenue	18	33,961	39,580
Lease liabilities	11	4,626	–
Deferred tax liability	10	1,891	–
Provisions	20	<u>527</u>	<u>527</u>
		<u>46,144</u>	<u>40,723</u>
<b>Current liabilities</b>			
Trade and other payables	16	421,054	891,531
Lease liabilities	11	2,627	–
Contract liabilities	16	132,380	50,948
Financial liabilities	17	583,337	770,579
Deferred revenue	18	3,002	8,423
Corporate tax	10	3,981	4,341
Cash pooling loans payable		<u>–</u>	<u>89,930</u>
		<u>1,146,381</u>	<u>1,815,752</u>
<b>Total liabilities</b>		<u>1,192,525</u>	<u>1,856,475</u>
<b>Total equity and liabilities</b>		<u>2,821,298</u>	<u>3,205,691</u>

## Statement of financial position (continued)

at 31 March 2020

The financial statements were approved by the board of directors and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'J. Brewin', with a large, stylized loop at the end.

J. Brewin  
Director  
27 August 2020

## Statement of changes in equity

for the year ended 31 March 2020

	<i>Issued share capital £000</i>	<i>Cash flow hedge reserve £000</i>	<i>Pension Reserve £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
<b>At 1 April 2018</b>	878,181	6,003	–	62,753	946,937
Profit for the year	–	–	–	405,907	405,907
Other comprehensive income	–	(3,628)	–	–	(3,628)
Total comprehensive income for the year	–	(3,628)	–	405,907	402,279
<b>At 1 April 2019</b>	878,181	2,375	–	468,660	1,349,216
Profit for the year	–	–	–	278,338	278,338
Other comprehensive income	–	(1,513)	2,732	–	1,219
Total comprehensive income for the year	–	(1,513)	2,732	278,338	279,557
<b>At 31 March 2020</b>	<u>878,181</u>	<u>862</u>	<u>2,732</u>	<u>746,998</u>	<u>1,628,773</u>



## Statement of cash flows

for the year ended 31 March 2020

		2020	2019
	Notes	£000	£000
<b>Net cash from operating activities</b>	23	32,110	80,830
<b>Investing activities</b>			
Interest received		1,344	2,823
Purchase of property, plant and equipment	11	(967)	(8,627)
Purchase of intangible assets	12	(208)	(5,957)
Decrease/(Increase) in loans to subsidiary and joint venture	17	4,500	(1,209,337)
Investment in subsidiary and joint venture		(21)	–
Proceeds from sale of investment		214,710	324,239
<b>Net cash used in investing activities</b>		219,358	(896,859)
<b>Financing activities</b>			
(Decrease)/Increase in cash pooling loans payable		(89,930)	89,930
(Decrease)/Increase in borrowings from group undertakings		(186,414)	768,445
Payment of Lease liabilities		(3,370)	–
<b>Net cash flows from financing activities</b>		(279,714)	858,375
Net (Decrease)/Increase in cash and cash equivalents		(28,246)	42,346
Effect of exchange rate fluctuations		(43)	(303)
Cash and cash equivalents at 1 April		161,798	119,755
<b>Cash and cash equivalents at 31 March</b>		133,509	161,798

## Notes to the financial statements

for the year ended 31 March 2020

### 1. Accounting policies

#### *Corporate information*

The financial statements of Hitachi Rail Limited for the year ended 31 March 2020 were authorised for issue by the board of directors on 27 August 2020. Hitachi Rail Limited is a limited company incorporated and domiciled in England and Wales. The registered office is located at 1 New Ludgate, 60 Ludgate Hill, London, EC4M 7HX in England.

#### *Going concern*

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report. In addition, Note 19 to the financial statements includes the company's policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

In assessing whether the financial statements for the company should be prepared on a going concern basis, the directors considered the expected impact of Covid-19 on the rail industry and cash and facilities available to the company over the next 12 months.

The immediate impact of Covid-19 has seen employees working from home where possible, and implementation of a number of measures to satisfy social distancing requirements and safe working practices in accordance with government guidelines at our offices, sites and depots. It is now expected that some trains will be accepted later than scheduled, meaning the impact on cash will be minimal and only a result of a change in timing. The directors' confidence in the continued cash-generating potential of the Operation, Service & Maintenance side of our business is bolstered by the commitment shown by the government so far to the train operating companies (TOC's) we serve, specifically in the reinstating of emergency measurements whereby the financial risks of TOC's is transferred to the government.

The company's cash position is strong enough to absorb any changes in the timing of milestone receipts from customers originally forecast for the year and the impact of potential delays in the awarding of bids or new projects over the next 12 months. The company had £133,509,000 of cash available on its balance sheet at 31 March 2020 and access to an uncommitted £150,000,000 Hitachi Group Treasury loan facility. Total cash available to the company including the loan facility is far in excess of forecast cash requirements for the year. The company's ultimate parent Hitachi, Ltd has continually demonstrated its financial commitment to the company by investing substantial funds and a issuing a letter of support for at least 12 months from the date of approval of these financial statements. The directors are satisfied that the ultimate parent Hitachi, Ltd. has the ability to provide this support, should it be required. In reaching this conclusion they considered the strategies that Hitachi, Ltd has put in place to strengthen its liquidity position in response to the Covid-19 pandemic.

Given the strong cash position of the company and the continued parental support, the directors deem it appropriate to prepare the financial statements on a going concern basis.

#### *Basis of preparation*

The financial statements of the company for the year ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared on a historical cost basis, except for cashflow hedges that have been measured at fair value. The financial statements are presented in pound sterling and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

#### *Group financial statements*

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare group financial statements as it and its subsidiary undertaking are included by full consolidation in the group financial statements of its ultimate parent, Hitachi Limited, a company incorporated in Japan.

## Notes to the financial statements

for the year ended 31 March 2020

### 1. Accounting policies (continued)

#### *Intangible assets*

Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets acquired separately are measured at cost less any accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation period and method for intangible assets with finite useful lives are as follows:

Computer software – 2 to 5 years

No depreciation is provided for assets under development.

Gains or losses arising from a derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### *Foreign currency translation*

The financial statements are presented in pound sterling, which is also the company's functional currency. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract.

#### *Property, plant and equipment*

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Depreciation is provided to write off the costs less the estimated residual value of assets by equal instalments over their estimated useful economic lives as follows:

Plant and equipment – 2 to 25 years or the term of the finance lease

Leasehold improvements – 3 to 10 years or lesser of life of lease

Buildings – 25 years

No depreciation is provided on freehold land or assets in the course of construction.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Gains or losses arising from a derecognition of a tangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### *Government grants*

Government grants are recognised where there is a reasonable assurance that the grant will be received and all attached conditions will be complied with.

## Notes to the financial statements

for the year ended 31 March 2020

### 1. Accounting Policies (continued)

#### *Government grants (continued)*

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the average expected useful life of the related asset.

The company has elected to present the grant in the statement of financial position reducing the carrying amount of the property, plant and equipment. The grant is then recognised in profit or loss over the average useful life of the relevant depreciable assets by way of a reduced depreciation charge.

#### *Revenue recognition*

Revenue is recognised to the extent that the company obtains the rights to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, VAT and other sales taxes and duty. The following criteria must also be met before revenue is recognised:

##### *Long-term manufacturing and construction contracts*

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. Contract revenue is recognised in profit or loss in proportion to the state of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. Full provision is made for all known or expected losses on construction contracts immediately when such losses are foreseen.

The stage of completion is measured by reference to the contract cost incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised to the extent of cost incurred i.e. that is probable will be recovered under the contract.

##### *Long-term railway maintenance contract*

Revenue is recognised based upon the work performed during the period. This revenue reflects the accrual of the right to consideration for the maintenance services provided as stipulated in the long-term railway maintenance contract. Costs in relation to these contracts are recognised in the profit and loss account as incurred in providing these maintenance services during the period. Full provision is made for all known or expected losses on maintenance contracts immediately when such losses are foreseen.

##### *Amounts due on contracts*

Amounts recognised as revenue that have not yet been invoiced are included in trade receivables as amounts due on contracts based on the value of services provided. No asset is recognised in respect of contingent work where at the year end the outcome of the project is not certain.

##### *Provision of additional railway services*

Revenue from the provision of additional railway services is recognised to the extent that those services have been provided in line with the terms of the contractual relationship.

##### *Entrustment income*

Revenue from these services is earned on a cost plus basis and is recognised at the point that rechargeable costs are incurred.

## Notes to the financial statements

for the year ended 31 March 2020

### 1. Accounting Policies (continued)

#### *Interest income*

Interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

#### *Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

#### *Deferred income tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future
- The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.
- Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.
- Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### *Leases*

At the commencement date of the lease, the company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which consists of the initial measurement of the lease liability, any initial direct costs incurred by the company in setting up/ entering into the lease, an estimate of any costs to dismantle and remove the asset at the end of the lease and any payments made in advance of the lease commencement date (net of any incentive received).

The company depreciates right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life or the end of the lease term. The carrying amounts of right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised when the carrying value of an asset exceeds its recoverable amount.

The company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the applicable incremental borrowing rate. Lease payments included in the measurement of the lease liability comprises of fixed or variable payments (based on an index or rate), amounts

## Notes to the financial statements

for the year ended 31 March 2020

### 1. Accounting Policies (continued)

#### *Leases (Continued)*

expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to the initial measurement, the liability will be reduced for payments made and increased for the interest applied and it is remeasured to reflect any reassessment or contract modifications. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or in the Income Statement if the right-of-use asset is already reduced to zero.

The company has elected to record short-term leases of less than 12 months and leases of low-value assets as defined in IFRS 16 as an operating expense in the Income Statement on a straight-line basis over the lease term.

The company has also elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component further increasing the lease liability.

The company adopted IFRS 16 'Leases' using the modified retrospective approach. Accordingly, the comparative information has not been restated and continues to be accounted for in accordance with the company's previous accounting policy under IAS 17 'Leases'.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value on a weighted average basis. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

#### *Impairment of non-financial assets*

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's value in use (recoverable amount). It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its value in use, the asset is considered impaired and is written down to its recoverable amount. 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.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

#### *Cash and cash equivalents*

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

#### *Research and development expenditure*

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

## Notes to the financial statements

for the year ended 31 March 2020

### 1. Accounting Policies (continued)

#### *Research and development expenditure (continued)*

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

#### *Provisions*

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are discounted to present value where the effect is material using pre-tax rate that reflects current market assessment for time value of money and risks specific to the liability. The amortisation of the discount is recognised as finance cost.

#### *Investments in subsidiaries and joint ventures*

Investments in subsidiaries and joint ventures held as fixed assets are stated as at cost less impairment. The carrying values of fixed asset investments are reviewed for impairment on an annual basis and when there are events or changes in circumstances which indicate that the carrying value may not be recoverable.

#### *Financial instruments*

##### *Financial assets*

Investments are initially recognised at cost, being fair value of consideration given and including attributable transaction costs associated with the investment.

After initial recognition, investments in equity shares are treated as available for sale financial assets and are measured at their fair value with any gains or losses recognised in equity. When the investment is derecognised or impaired, the cumulative gain or loss previously recognised in equity is included in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably valued are measured at cost.

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for those with maturities greater than twelve months after the reporting date, which are classified as non-current assets. Loans and receivables are presented in trade and other receivables in the statement of financial position.

Financial assets are assessed for impairment in accordance with IFRS 9 'Financial Instruments: Recognition and Measurement', when there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Please refer to note 19 for details.

##### *Financial liabilities*

Financial liabilities within the scope of IFRS 9 are classified loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

The company's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

##### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective rate of interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

## Notes to the financial statements

for the year ended 31 March 2020

### 1. Accounting Policies (continued)

#### *Financial instruments (continued)*

##### *Financial guarantee contracts*

Financial guarantee contracts issued by the company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

##### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

##### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### *Derivative financial instruments and hedge accounting*

##### *Initial recognition and subsequent measurement*

The company uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

##### *Cash Flow Hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the income statement as finance and other similar costs.

Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast purchase occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.



# Notes to the financial statements

for the year ended 31 March 2020

## 1. Accounting Policies (continued)

### *Cash Flow Hedges (continued)*

The company uses forward currency contracts to hedge its exposure to foreign currency risk in forecasted transactions and firm commitments. Refer to note 17 for further details.

### **Employee Benefits**

#### *Defined contribution plan*

The company operates a defined contribution pension scheme. Contribution to the pension scheme are recognised in the profit and loss account in the periods in which they become payable and any contributions outstanding at the financial year end are included as an accrual in the Balance Sheet.

#### *Defined benefit plan*

Actuarial valuations for accounting purposes are carried out at each balance sheet date in relation to defined benefit plans, using the projected unit credit method, to determine the schemes' liabilities and the related cost of providing benefits. Scheme assets are accounted for at fair value using bid prices.

Current service cost and net interest cost are recognised in the Income Statement as they arise. Past service cost, which can be positive or negative, is recognised immediately in the Income Statement. Gains or losses on the curtailment or settlement of a plan are recognised in the Income Statement when the curtailment or settlement occurs. Re-measurement on retirement benefits obligation, comprising actuarial gains and losses and the return on plan assets (excluding amounts included in net interest cost) are recognised in full in the period in which they occur in the Statement of Income.

The defined benefit liability recognised in the Balance Sheet represents the present value of the defined benefit obligation less the fair value of any plan assets. Defined benefit assets are also recognised in the Balance Sheet but are limited to the present value of available refunds from, and reductions in future contributions to, the plan.

#### *Termination Benefits*

Termination payments are recognised as an expense at the earlier of the company being unable to withdraw the offer of said benefits or when the company recognises costs for restructuring that are within the scope of IAS 37 and involves the payment of termination benefits. The company is considered as no longer being able to withdraw benefits at the earlier of acceptance of the offer by the employee or when a restriction (e.g. a legal, regulatory or contractual requirement) on the company's ability to withdraw the offer take effect.

### **Change in accounting policy**

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2019. They are either not relevant or do not have a material effect on the company's financial statements:

IFRIC	Uncertainty over Income Tax Treatments
Interpretation 23	
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
AIP IFRS 3	Previously held Interests in a joint operation
AIP IFRS 11	Joint Arrangements - Previously held Interests in a joint operation
AIP IAS 12	Income Taxes - Income tax consequences of payments on financial instruments classified as equity

# Notes to the financial statements

for the year ended 31 March 2020

## 1. Accounting Policies (continued)

### *Adoption of new and revised standards*

IFRS 16 'Leases' was effective from periods beginning on or after 1 January 2020 and replaces IAS 17 'Leases'. The standard introduces a new single lessee accounting model requiring a lessee to recognise assets and liabilities for all relevant leases on the Statement of Financial Position.

IFRS 16 'Leases' was adopted by the company using a modified retrospective approach commencing on 1 April 2019. The adoption of IFRS 16 'Leases' has resulted in the recognition of new assets held ('right-of-use assets') the balance of which is included within the 'Property, Plant and Equipment' line within the Statement of Financial Position. The associated liabilities can be found split into both current and non-current portions within the Statement of Financial Positions. At 31 March 2019 the company had non-cancellable operating lease commitments of £10,588,000 and finance lease commitments of £nil. The company recognised right-of-use assets of £18,793,000, retrospective accumulated depreciation of £8,102,000 and lease liabilities of £10,244,000 on 1 April 2019, the transition date. A reconciliation explaining the difference between the IAS 17 operating lease commitments at year end and the lease liability at the date of transition to IFRS 16 'Leases' has been included in note 11. The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 2.11%.

## 2. Significant accounting estimates and assumptions

The preparation of the company's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the accompanying disclosure. Uncertainty about these assumptions and estimates could result in outcome that requires a material adjustment to the carrying amount of the asset or liability affected in future periods.

## 3. Standards issued but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

		Effective date for annual periods beginning on or after
IFRS 3	Definition of a business – Amendment to IFRS 3	1 January 2020
IAS 1 and IAS 8	Definition of Material – Amendment to IAS 1 and IAS 8	1 January 2020
	The Conceptual Framework for Financial Reporting	
IFRS 9, IAS 39, IBOR Reform Phase 1 Amendments		1 January 2020
IFRS 7		
IFRS 17	Insurance Contracts	1 January 2021
IAS 1	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	1 January 2022

The directors are currently evaluating the impact of these standards on the company's financial statements.

The company intends to adopt these standards, if applicable, when they become effective. No significant impact as a result of the adoption of any of the above standards is expected.

## Notes to the financial statements

for the year ended 31 March 2020

### 4. Revenue

Revenue, which is stated net of value added tax and is in respect of continuing operations, represents the amounts derived from the provision of services which fall within the company's ordinary activities, conducted in the UK.

Revenues are comprised as follows:

	2020	2019
	£000	£000
Long-term construction contract revenues	572,797	1,217,034
Rendering of services	295,181	190,216
Total revenues	<u>867,978</u>	<u>1,407,250</u>

Revenue is further categorised as to whether the revenue recognition from customer sales is predominantly at a point in time or over time as follows:

	2020	2019
	£000	£000
Goods and services transferred over time	863,965	1,403,116
Goods and services transferred at a point in time	4,013	4,134
Total revenues	<u>867,978</u>	<u>1,407,250</u>

### Contract Balances

	2020	2019
	£000	£000
Trade receivables	74,460	141,714
Contract assets	216,124	533,478
Contract liabilities	(132,380)	(50,948)

## Notes to the financial statements

for the year ended 31 March 2020

### 5. Operating profit

This is stated after charging:

	2020	2019
	£000	£000
Auditors' remuneration – audit services	190	170
– other services related to audit	96	85
– non-audit advisory services	–	246
Costs in relation to past acquisitions and strategic advice		
– costs incurred in connection with advice relating to strategic development and evaluation of past acquisition targets	1,375	9,738
Depreciation of property, plant and equipment		
– owned assets	5,384	6,332
– right-of-use assets	3,325	–
Derecognition of tangible assets		
– assets in the course of development	147	49
Amortisation of intangible assets		
– owned assets	1,954	1,742
Sale of investment		
– gain on partial sale of investment	156,798	316,389

### 6. Directors' remuneration

	2020	2019
	£000	£000
Directors' remuneration in respect of qualifying services	2,108	935
Pension contribution to money purchase pension schemes	17	–

The remuneration of the highest paid director was £1,187,801 (2019 – £484,124) and contributions to the pension scheme of £nil (2019 – £nil). Some of the directors are remunerated by other companies in the Hitachi group and it is not possible to reasonably attribute a part of their remuneration to their qualifying services for this company.

Two directors participated in the company's defined contribution pension scheme (2019 – one).

## Notes to the financial statements

for the year ended 31 March 2020

### 7. Staff costs

	2020	2019
	£000	£000
Wages and salaries	135,016	126,083
Social security costs	15,670	13,724
Termination Benefits	2,266	–
Expenses relating to pension plans (note 22)	18,279	8,179
	<u>171,231</u>	<u>147,986</u>

The average monthly number of employees during the year was made up as follows:

	2020	2019
	No.	No.
Office and Management	467	464
Manufacturing, Maintenance and Engineering	2,219	2,115
	<u>2,686</u>	<u>2,579</u>

### 8. Finance revenue

	2020	2019
	£000	£000
Interest income (note 17)	35,502	46,741
Net foreign exchange gain	29,300	476
Unrealised foreign exchange gain on derivatives used for hedging	2,713	–
	<u>67,515</u>	<u>47,217</u>

### 9. Finance costs

	2020	2019
	£000	£000
Interest on debts and borrowings	2,786	1,700
Interest expense on lease liabilities	194	–
Net foreign exchange loss	–	17,048
Realised foreign exchange loss on derivatives used for hedging	3,584	–
Unrealised foreign exchange loss on derivatives used for hedging	–	1,988
	<u>6,564</u>	<u>20,736</u>

## Notes to the financial statements

for the year ended 31 March 2020

### 10. Tax

#### (a) Tax on profit on ordinary activities

The tax (charge)/credit is made up as follows:

	2020 £000	2019 £000
<b>Current tax:</b>		
UK Corporation tax at 19% (2019 – 19%)	(26,298)	(23,066)
UK adjustments in respect of prior years	3,532	(9,980)
Total current income tax (charge) (note 10 (b))	<u>(22,766)</u>	<u>(33,046)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	3,435	(3,686)
Total deferred tax	<u>3,435</u>	<u>(3,686)</u>
Total tax (charge)/credit in the income statement	<u>(19,331)</u>	<u>(36,732)</u>

#### (b) Reconciliation of the total tax charge

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2019 – 19%). The differences are explained below:

	2020 £000	2019 £000
Accounting profit before tax	297,669	442,639
Tax calculated at UK standard rate of corporation tax of 19% (2019: 19%)	56,557	84,101
<b>Effects of:</b>		
Non-trading credits and expenses not deductible for tax purposes	2,113	2,895
Adjustments in respect of prior years	(3,532)	9,980
Utilisation of previously unrecognised deferred tax in the current year	–	997
Tax exemptions on gain on sale	(29,751)	(60,173)
Utilisation of patent box deductions	(2,621)	(3,758)
Tax charge in respect of temporary differences	(2,330)	1,852
Tax charge in respect of temporary differences in OCI	(1,105)	838
Total tax charge / (credit) (note 10(a))	<u>19,331</u>	<u>36,732</u>

## Notes to the Financial Statements

for the year ended 31 March 2020

### 10. Tax (continued)

#### (c) Deferred tax

Analysis of deferred tax

	<i>Recognised 2020 £000</i>	<i>Recognised 2019 £000</i>
Deferred tax liability		
Revaluation of cash flow hedges	(58)	(55)
Depreciation and capital allowances	(1,833)	(4,163)
Deferred tax liability	<u>(1,891)</u>	<u>(4,218)</u>
Deferred tax asset		
Tax losses available	–	–
Revaluation of cash flow hedges	248	397
Employee Defined Benefit Obligation	977	–
Deferred tax asset	<u>1,225</u>	<u>397</u>
Disclosed on the balance sheet		
Deferred tax asset	1,225	397
Deferred tax liability	(1,891)	(4,218)
Total deferred tax	<u>(666)</u>	<u>(3,821)</u>

At 31 March 2020, the company had a net deferred tax liability of £666,278 (2019: £3,821,000) that has been recognised in these financial statements. The deferred tax liability consists of timing differences arising from accelerated differences on capital allowances of £9,647,214 (2019: £24,441,919) and the tax effect on the revaluation of cash flow hedges of £304,446 (2019: £2,133,834), the asset consists of the tax effect on the revaluation of cash flow hedges of £1,305,430 (2019: £309,743) and on the tax effect of the assumption of a defined benefit obligation of £5,139,000 (2019: £nil).

#### (d) Factors that may affect future tax charges

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

Deferred tax has been provided on all temporary differences at the rate in force when they are anticipated to reverse which is 19% for all temporary differences recognised in the current financial year.

## Notes to the financial statements

for the year ended 31 March 2020

### 11. Property, plant and equipment

(i.) Property, plant and equipment analysis

	<i>Assets under construction</i>	<i>Buildings</i>	<i>Land</i>	<i>Leasehold improvements</i>	<i>Plant and Equipment</i>	<i>Total tangible assets</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:						
At 1 April 2019	9,279	47,921	6,126	2,587	40,002	105,915
Additions	1,152	17	–	–	26	1,195
Reclassifications	(7,322)	1,972	–	–	5,350	–
Derecognition	(147)	–	–	–	–	(147)
Reclassification between tangible/intangible	(228)	–	–	–	–	(228)
Disposals	–	–	–	–	(232)	(232)
At 31 March 2020	2,734	49,910	6,126	2,587	45,146	106,503
Depreciation:						
At 1 April 2019	–	7,250	–	1,067	9,292	17,609
Charge for the year	–	1,952	–	399	3,033	5,384
Disposals	–	–	–	–	(124)	(124)
At 31 March 2020	–	9,202	–	1,466	12,201	22,869
Net book value:						
At 1 April 2019	9,279	40,671	6,126	1,520	30,710	88,306
At 31 March 2020	2,734	40,708	6,126	1,121	32,945	83,634

The company has no restrictions on its ownership and title to the property, plant and equipment and these assets have not been pledged as security for liabilities.



## Notes to the financial statements

for the year ended 31 March 2020

### 11. Property, plant and equipment (continued)

#### (ii). Right-of-use assets analysis

	<i>Buildings</i> £000	<i>Machinery</i> £000	<i>Vehicles</i> £000	<i>Tools, Fixtures and Fittings</i> £000	<i>Total right-of- use assets</i> £000
Cost:					
At 1 April 2019	–	–	–	–	–
Adjustment on transition to IFRS 16 Leases	16,994	1,236	325	238	18,793
Additions	160	–	–	73	233
Disposals	–	–	(34)	–	(34)
At 31 March 2020	17,154	1,236	291	311	18,992
Depreciation:					
At 1 April 2019	–	–	–	–	–
Adjustment on transition to IFRS 16 Leases	7,428	425	105	144	8,102
Disposals	–	–	(34)	–	(34)
Charge for the year	2,889	271	91	74	3,325
At 31 March 2020	10,317	696	162	218	11,393
Net book value:					
On initial application of IFRS 16 Leases	9,566	811	220	94	10,691
At 31 March 2020	6,837	540	129	93	7,599

Right-of-use assets consist of:

-Buildings for warehouse space and manufacturing and testing facilities. The lease terms vary from 2 to 25 years with an average of 7 years.

-Machinery and equipment used for manufacturing and service & maintenance purposes. The lease terms vary from 3 to 5 years with an average of 5 years.

-Motor vehicles for management and specific members of the business requiring business transportation. The lease terms vary from 2 to 5 years with an average of 3 years.

-Tools, Fixtures and Fittings which are primarily items of furniture and items of equipment used for administration purposes. The lease terms vary from 3 to 5 years with an average of 5 years.

## Notes to the financial statements

for the year ended 31 March 2020

### 11. Property, plant and equipment (continued)

#### (iii.) Lease Disclosures

(iii.i) Amounts recognised in the Income Statement	2020 £000
-Depreciation charged during the year	3,325
-Expenses relating to leases of low-value assets, excluding short-term leases of low value assets	12
Interest on lease liabilities:	
-Charge for the year	194
Recognised in the Income Statement	3,531
(iii.ii) Amounts recognised in the Statement of Cash Flows	2020 £000
Total cash outflow for leases during the year*	3,370
*Includes principal and interest elements of lease liabilities and short-term and low-value lease expenses	
(iii.iii) At the balance sheet date the company had commitments under non-cancellable leases falling due as follows:	2020 £000
-Within 1 year	2,627
-Within 2 to 5 years	3,456
-After 5 years	1,170
Total	7,253
(iii.iv) Lease liabilities recognised on initial application	2019 £000
Future minimum lease payments under non-cancellable leases at 31 March 2019	10,588
Impact of discounting at weighted incremental borrowing rate of 2.11% at 1 April 2019	(344)
Total	10,244
Non-current lease liabilities	3,307
Current lease liabilities	6,937

## Notes to the financial statements

for the year ended 31 March 2020

### 12. Intangible assets

	<i>Assets under development</i>	<i>Software</i>	<i>Total intangible assets</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 April 2019	13,056	9,293	22,349
Additions	(485)	465	(20)
Reclassification	(509)	509	–
Reclassification between tangible/intangible	64	164	228
At 31 March 2020	12,126	10,431	22,557
Amortisation:			
At 1 April 2019	–	5,263	5,263
Charge for the year	–	1,954	1,954
At 31 March 2020	–	7,217	7,217
Net book value:			
At 1 April 2019	13,056	4,030	17,086
At 31 March 2020	12,126	3,214	15,340

Assets under development include the costs associated with developing software for optimised condition based and reliability centred train maintenance. Amortisation of assets under development commences once the intangible asset is available for use.

### 13. Investment

	<i>Interests in subsidiaries</i>	<i>Interests in joint ventures</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 April 2019	675,153	55	675,208
Additions	1,321,878	21	1,321,899
Disposals	–	(8)	(8)
At 31 March 2020	1,997,031	68	1,997,099
Net book value:			
At 1 April 2019	675,153	55	675,208
At 31 March 2020	1,997,031	68	1,997,099

On 30 April 2019 the company reduced its investment in Agility Trains West (Holdings) Limited by reducing its shareholding from 40% to 25%. On 13 August 2019 the company invested in Rock Rail East Midlands (Holdings) 1 Limited by acquisition of 41.32% of ordinary shares in the entity.

## Notes to the financial statements

for the year ended 31 March 2020

### 13. Investment (continued)

Prior to the reverse merger of Hitachi Rail Italy Investments S.r.l. and Hitachi Rail Italy Holdings S.r.l. into Hitachi Rail STS S.p.A. in which the company holds 100% of ordinary shares, loan agreements between the company and Hitachi Rail Italy Holdings S.r.l. were waived and on 15 July 2019 converted into an equity investment in Hitachi Rail STS S.p.A..

The principal operating companies in which the company's interest direct or indirect is more than 20% are as follows:

	<i>Country of registration or incorporation</i>	<i>Class and percentage of shares held</i>	<i>Principal activities</i>
<i>Agility Trains West (Holdings) Limited</i>	<i>UK</i>	<i>25% ordinary</i>	<i>Supply and maintenance of train rolling stock</i>
<i>Agility Trains East (Holdings) Limited</i>	<i>UK</i>	<i>70% ordinary</i>	<i>Supply and maintenance of train rolling stock</i>
<i>Hitachi Rail SpA</i>	<i>Italy</i>	<i>100% ordinary</i>	<i>Manufacture and maintenance of train rolling stock</i>
<i>Hitachi Rail STS SpA</i>	<i>Italy</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Rock Rail East Midlands (Holdings) 1 Ltd.</i>	<i>United Kingdom</i>	<i>41.32% ordinary</i>	<i>Supply and maintenance of train rolling stock</i>
<i>Hitachi Rail USA, Inc*</i>	<i>USA</i>	<i>100% ordinary</i>	<i>Manufacture and maintenance of train rolling stock</i>
<i>Hitachi Rail Espana SL*</i>	<i>Spain</i>	<i>100% ordinary</i>	<i>Manufacture and maintenance of train rolling stock</i>
<i>Hitachi Rail STS Australia Pty Ltd.*</i>	<i>Australia</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Sweden AB*</i>	<i>Sweden</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS UK Ltd.*</i>	<i>United Kingdom</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS España S.A.U.*</i>	<i>Spain</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Hong Kong Ltd.*</i>	<i>China</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>

## Notes to the financial statements

for the year ended 31 March 2020

### 13. Investment (continued)

	<i>Country of registration or incorporation</i>	<i>Class and percentage of shares held</i>	<i>Principal activities</i>
<i>Hitachi Rail STS France S.A.S.*</i>	<i>France</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Union Switch &amp; Signal Inc.*</i>	<i>United States</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Malaysia Sdn Bhd*</i>	<i>Malaysia</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Canada Inc.*</i>	<i>Canada</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS USA Inc.*</i>	<i>United States</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS USA International Co.*</i>	<i>United States</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS India Pvt Ltd.*</i>	<i>India</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Deutschland GmbH *</i>	<i>Germany</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Railway Signaling Technology (Beijing) company Ltd.*</i>	<i>China</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Hurontario Holdings Inc..*</i>	<i>Canada</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Rail STS Mobilinx Hurontario Gp Inc.*</i>	<i>Canada</i>	<i>100% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Alifana Due Scarl*</i>	<i>Italy</i>	<i>53.34% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Pegaso Scarl (In Liq.)*</i>	<i>Italy</i>	<i>46.87% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Metro 5 S.P.A.*</i>	<i>Italy</i>	<i>24.6% ordinary</i>	<i>Signalling and Transportation Systems</i>

## Notes to the financial statements

for the year ended 31 March 2020

### 13. Investment (continued)

	<i>Country of registration or incorporation</i>	<i>Class and percentage of shares held</i>	<i>Principal activities</i>
<i>International Metro Service S.R.L.*</i>	<i>Italy</i>	<i>49% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Balfour Beatty Ansaldo Systems Jv Sdn Bhd (In Liq.)*</i>	<i>Malaysia</i>	<i>40% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Mobilinx Hurontario Gp.*</i>	<i>Canada</i>	<i>20% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Operation Alliance Ops Co.*</i>	<i>Saudi Arabia</i>	<i>50% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Ferrovioario Vesuviano consortium*</i>	<i>Italy</i>	<i>33.34% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>San Giorgio Volla2 consortium*</i>	<i>Italy</i>	<i>33.33% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Ascosa Quattro consortium*</i>	<i>Italy</i>	<i>25% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Saturno consortium*</i>	<i>Italy</i>	<i>33.34 ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Radiolabs consortium*</i>	<i>Italy</i>	<i>50% ordinary</i>	<i>Signalling and Transportation Systems</i>
<i>Hitachi Baltimore Rail Partners LLC*</i>	<i>USA</i>	<i>50% ordinary</i>	<i>Signalling and Transportation Systems</i>

\* held indirectly

The directors consider there to be no ultimate controlling party for either Agility Trains West (Holdings) Limited or Agility Trains East (Holdings) Limited as the owners of Agility Trains West (Holdings) Limited and Agility Trains East (Holdings) Limited have joint control. Joint control exists as decisions about the business activities require the unanimous consent of the parties that control the arrangement collectively.

### 14. Inventories

	<i>2020</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>
Finished goods, goods for resale and raw materials	<u>81,027</u>	<u>84,382</u>

## Notes to the financial statements

for the year ended 31 March 2020

### 15. Trade and other receivables

	2020	2019
	£000	£000
Trade receivables due from related parties	107,430	140,592
Other trade receivables	11,944	23,455
Trade receivables	119,374	164,047
Amounts due from customers for contract work	216,124	533,478
	<u>335,498</u>	<u>697,525</u>
Non-current	44,914	22,333
Current	290,584	675,192
	<u>335,498</u>	<u>697,525</u>

For terms and conditions relating to related party transactions, refer to note 24.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

The company evaluates the risk of credit losses with respect to trade receivables and contract assets as low and following an impairment analysis performed at the reporting date reflecting the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions, has not made any allowance (£nil) for expected credit losses of trade receivables and contract assets as at 31 March 2020 (2019 - £nil).

As at 31 March 2020, no (£nil) trade receivables were impaired and fully provided for (2019 - £nil).

As at 31 March, the ageing analysis of other trade receivables that were past due but not impaired is as follows:

		Past due but not impaired					
	Total	Neither past due nor impaired	< 30 days	30-60 days	61-90 days	91-120 days	>120 days
	£000	£000	£000	£000	£000	£000	£000
2020	11,944	8,312	3,385	247	–	–	–
2019	23,455	20,866	1,401	645	543	–	–

The carrying amounts of the trade and other receivables are a reasonable approximation of fair value.

## Notes to the financial statements

for the year ended 31 March 2020

### 16. Trade and other payables

	2020	2019
	£000	£000
Trade payables due to related parties	287,888	703,250
Other trade payables	62,927	158,783
Accrued expenses	70,239	29,498
Payables	421,054	891,531
Amounts due to customers for contract work	132,380	50,948
	<u>553,434</u>	<u>942,479</u>
Non-current	–	–
Current	553,434	942,479
	<u>553,434</u>	<u>942,479</u>

The carrying amounts of the trade and other payables are a reasonable approximation of fair value.

Current trade payables due to related parties and other trade payables are non-interest bearing and are generally on terms of 30, 60, 90 and 360 days.

### 17. Financial assets and financial liabilities

#### *Financial assets*

	2020	2019
	£000	£000
<b><i>Financial instruments at fair value through other comprehensive income</i></b>		
Cash flow hedges	304	291
Loan notes, owed by group undertakings due within one year	–	1,265,573
Loan notes, owed by group undertakings due in more than one year	164,041	211,471
Total assets	<u>164,345</u>	<u>1,477,335</u>

Interest from loan notes owed by group undertakings due within one year is receivable at a rate of 0.40% per annum and EUR 6 month ICE LIBOR +25 basis points. Loan notes previously payable to the company by Hitachi Rail Italy Holdings S.r.l. were waived and converted into a capital reserve and investment in Hitachi Rail STS SpA.

Interest from loan notes owed by group undertakings due in more than one year is receivable at a rate of 13%. The loans are unsecured and are due to be repaid over 22 years from May 2019 (£67,049,430) and over 22 years from September 2020 (£96,991,514). The reduction in shareholdings in Agility Trains West (Holdings) Limited from 40% to 25% in the year reduced loan notes owed by group undertakings at the balance sheet date by a proportional amount.

Financial assets at fair value through other comprehensive income reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast purchases in Euro, Japanese Yen and US Dollar.



## Notes to the financial statements

for the year ended 31 March 2020

### 17. Financial assets and financial liabilities (continued)

#### *Financial liabilities*

2020	2019
£000	£000

#### *Financial instruments at fair value through other comprehensive income*

Cash flow hedges	1,306	2,134
Loan notes, owed to group undertakings due within one year	582,031	768,445
Total current liabilities	<u>583,337</u>	<u>770,579</u>

Interest from loan notes owed to group undertakings is payable at a rate of 0.4% per annum. The loan is unsecured and was initially repayable in full on May 15<sup>th</sup> 2019. On May 15<sup>th</sup> 2019, a repayment of €240,000,000 was made and a new loan agreement was entered into for €655,000,000 to be repaid on November 15<sup>th</sup> 2019 on the same terms. During the year, the loan was subsequently extended to May 15<sup>th</sup> 2020. On May 14<sup>th</sup> 2020 Hitachi Rail Ltd entered into a loan agreement with Hitachi International Holland B.V. which resulted in the repayment of €655,000,000 to Hitachi, Ltd and a new loan denominated in GBP and payable to Hitachi International Holland B.V. in the amount of £573,000,000. The loan is payable on a term of 180 days at an interest rate of the 1 month GBP ICE LIBOR rate plus 40 basis points.

Financial liabilities at fair value through other comprehensive income reflect the change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast purchases in Euro, Japanese Yen and US Dollar.

#### *Cash flow hedges*

Foreign exchange forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast purchases in Euro and Japanese Yen.

While the company also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected sales and purchases, these other contracts are not designated in hedge relationships and are measured at fair value through profit or loss.

The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

#### *Off Balance Sheet*

Financial assets and liabilities are offset and the net amount reported in the Financial Statements, where the company has no obligation to pay amounts unless it collects equivalent amounts from the original asset, is prohibited from selling or pledging the original asset and has an obligation to remit any cash flows it collects without material delay.

On 3 April 2018 the company invested £72,743,000 in Agility Trains East (Midco) Limited Loan Notes. To finance the investment the company obtained a loan of £72,743,000 by entering into a sub-participation agreement on 26 June 2018. Having met the criteria under IFRS 9 "Financial Instruments" paragraphs 3.2.5 & 3.2.22 and IAS32 "Financial Instruments: Recognition and Measurement" paragraph 42, the associated financial assets and liabilities, relating to principal amount of £72,743,000 have been offset and derecognised from the financial statements.

## Notes to the financial statements

for the year ended 31 March 2020

### 17. Financial assets and financial liabilities (continued)

#### Off Balance Sheet (continued)

The following table presents the financial assets and liabilities recognised and offset:

As at 31 <sup>st</sup> March 2020	Gross Value before offset £000	Offset £000	Net Amounts after offset presented on balance sheet £000
Financial assets	236,784	(72,743)	164,041
Financial liabilities	656,080	(72,743)	583,337

### 18. Deferred revenue

	2020 £000	2019 £000
At 1 April	48,003	64,143
Deferred during the year	240	218
Released to the income statement	(11,280)	(16,358)
At 31 March	<u>36,963</u>	<u>48,003</u>
Current	3,002	8,423
Non-current	<u>33,961</u>	<u>39,580</u>
	<u>36,963</u>	<u>48,003</u>

Deferred revenue includes amounts recovered in respect of pre-contract costs that are amortised over the life of the contract and advances received in relation to loan commitment fees.

### 19. Financial risk management objectives and policies

The board of directors reviews and agrees policies for managing foreign currency risk, credit risk, and liquidity risk, which are summarised below.

#### Foreign currency risk

The company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2020 £000	2019 £000	2020 £000	2019 £000
Euro	621,660	921,719	15,028	1,265,753
Japanese Yen	18,166	48,306	15,970	1,376
Other	10,098	7,463	107	1

## Notes to the financial statements

for the year ended 31 March 2020

### 19. Financial risk management objectives and policies (continued)

#### Foreign currency sensitivity

The following tables demonstrate the company's sensitivity to a 5 per cent increase and decrease in Sterling against Euro (EUR) and Japanese Yen (JPY), with all other variables held constant. The sensitivity analysis includes only outstanding Euro and Japanese Yen denominated monetary items and adjusts their translation at the period end for the percentage change. A positive number below indicates an increase in profit and other equity whereas a negative number indicates a comparable impact on the profit. The company's exposure to foreign currency changes for currencies other than Euro and Japanese Yen is not material.

	Change in EUR rate	Effect on profit before tax £000	Change in JPY rate	Effect on profit before tax £000
2020	+5%	(30,332)	+5%	(110)
	-5%	30,332	-5%	110
2019	+5%	(17,193)	+5%	2,347
	-5%	17,193	-5%	(2,347)

#### Fair values of financial assets and liabilities

There is no significant difference between the carrying amount and the fair value of any financial instrument for the company.

The carrying amounts of each class of financial assets and financial liabilities is summarised below:

	Carrying Amount		Fair Value	
	2020	2019	2020	2019
	£000	£000	£000	£000
<b>Financial assets</b>				
Investment	1,997,099	675,208	1,997,099	675,208
Trade and other receivables	119,374	164,047	119,374	164,047
Contract Asset	216,124	533,478	216,124	533,478
Loan notes, owed by group undertakings	164,041	1,477,044	164,041	1,477,044
Cash flow hedges	304	291	304	291
Cash at bank	670	17,720	670	17,720
Cash pooling loans receivable	132,839	144,078	132,389	144,078
<b>Financial liabilities</b>				
Loan notes, owed to group undertakings	582,031	768,445	582,031	768,445
Trade and other payables	421,054	891,531	421,054	891,531
Contract liabilities	132,380	50,948	132,380	50,948
Cash pooling loans payable	–	89,930	–	89,930
Cash flow hedges	1,306	2,134	1,306	2,134

## Notes to the financial statements

for the year ended 31 March 2020

### 19. Financial risk management objectives and policies (continued)

#### *Fair values of financial assets and liabilities (continued)*

The fair value of forward currency exchange contracts was determined using mark to market forward exchange rates matching the maturities of the contracts.

The carrying values of short term receivables and payables are assumed to approximate their fair values where discounting is not material.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the commitments. There were no significant element of hedge ineffectiveness requiring recognition in the income statement.

#### *Fair value hierarchy*

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorder fair value that are not based on observable market data.

At 31 March 2020, the company held the following financial instruments measured at fair value:

	2020 £000	Level 1 £000	Level 2 £000	Level 3 £000
<b>Assets measured at fair value</b>				
Foreign currency forward contracts	304	–	304	–
<b>Liabilities measured at fair value</b>				
Foreign currency forward contracts	1,306	–	1,306	–

At 31 March 2019, the company held the following financial instruments measured at fair value:

	2019 £000	Level 1 £000	Level 2 £000	Level 3 £000
<b>Assets measured at fair value</b>				
Foreign currency forward contracts	291	–	291	–
<b>Liabilities measured at fair value</b>				
Foreign currency forward contracts	2,134	–	2,134	–

During the reporting period ending 31 March 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

## Notes to the financial statements

for the year ended 31 March 2020

### 19. Financial risk management objectives and policies (continued)

#### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the company uses other publicly available financial information and its own trading records to rate its major customers. The credit ratings of its counterparty are continuously monitored and the credit exposure is controlled by counterparty limits that are reviewed annually.

Trade receivables consist of a small number of customers. The requirement for an impairment is analysed at each reporting date on an individual basis for major clients applying the simplified approach under IFRS 9 for expected credit losses. The company does not recognise an allowance for expected credit losses on trade receivables and contract assets for the year ended 31 March 2020. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 17. The company does not hold collateral as security.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

#### **Liquidity risk**

The board of directors has established an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and loan facilities by continuously monitoring forecast and actual cash flows.

The table below summarises the maturity profile of the company's financial liabilities at 31 March 2019 and 31 March 2020 based on contractual undiscounted payments.

<i>Year ended</i>		<i>Less than</i>	<i>3 to 12</i>			
<i>31 March 2020</i>	<i>On demand</i>	<i>3 months</i>	<i>months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Non-derivative Financial Liabilities</b>						
Loan notes, owed to group undertakings	–	582,031	–	–	–	582,031
Trade and other payables	103,159	201,069	116,826	–	–	421,054
Other liabilities	–	–	–	238	289	527
	<u>103,159</u>	<u>783,100</u>	<u>116,826</u>	<u>238</u>	<u>289</u>	<u>1,003,612</u>

## Notes to the financial statements

for the year ended 31 March 2020

### 19. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

Year ended 31 March 2019	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
<b>Non-derivative Financial Liabilities</b>						
Loan notes, owed to group undertakings	–	768,445	–	–	–	768,445
Trade and other payables	107,915	361,049	473,515	–	–	942,479
Other liabilities	–	–	–	238	289	527
	<u>107,915</u>	<u>1,129,494</u>	<u>473,515</u>	<u>238</u>	<u>289</u>	<u>1,711,451</u>

#### Capital management

Capital includes equity attributable to the shareholder. The company's objectives when managing capital are to safeguard its ability to continue as a going concern and to provide an optimal return to its shareholder. In order to maintain or re-align the capital structure, the company may receive capital contributions from group undertakings.

### 20. Provisions for liabilities

	<i>Property provisions £000</i>
At 1 April 2019 and 31 March 2020	<u>527</u>
Current	–
Non-current	<u>527</u>

#### Property provisions

A dilapidation provision has been put in place for properties the company occupies in London. The provision is required to make good dilapidations or other damage occurring during the lease period.

## Notes to the financial statements

for the year ended 31 March 2020

### 21. Issued share capital

	2020	2020	2019	2019
<i>Authorised</i>	<i>No.</i>	<i>£000</i>	<i>No</i>	<i>£000</i>
Ordinary shares of £1 each	198,478,624	<u>198,479</u>	198,478,624	<u>198,479</u>
Ordinary shares of €1 each	828,000,000	<u>679,702</u>	828,000,000	<u>679,702</u>
<i>Allotted, called up and fully paid</i>				
	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	198,478,624	<u>198,479</u>	198,478,624	<u>198,479</u>
Ordinary shares of €1 each	828,000,000	<u>679,702</u>	828,000,000	<u>679,702</u>
		<i>2020</i>		<i>2019</i>
		<i>£000</i>		<i>£000</i>
Shares classified as shareholders' funds		<u>878,181</u>		<u>878,181</u>

## Notes to the financial statements

for the year ended 31 March 2020

### 22. Pension

The company operates a defined contribution scheme. company contributions to the scheme in the year to 31 March 2020 were £7,271,707 (2019 - £6,003,126). There were no unpaid or prepaid amounts at 31 March 2020 (2019 – £nil).

In November 2018, certain members of staff transferred into the company through a TUPE arrangement, whereby the obligations of the employee's terms and conditions are transferred to the company. The company is the Designated Employer for a Shared Cost section of the Railways Pension scheme, a defined benefit scheme. The assets of this section are held in a separate trustee administered fund which is independent of the company's finances and the scheme's investment strategy is decided by the trustees, in consultation with the employer.

Upon completion of the TUPE transfer, the company recognised costs in relation to past and current service costs and the associated defined benefit obligation. The values used in the company's financial statements are based on the most recent actuarial valuations as calculated by a qualified independent actuary to incorporate the requirements of IAS 19 'Employee Benefits' in order to assess the liabilities of the defined benefit scheme as at 31 March 2020 using the projected unit credit method.

#### (i.) Recognition in the Income Statement and Statement of Comprehensive Income

Service Cost:	2020 £000	2019 £000
-Costs relating to defined contribution schemes	7,272	6,003
-Current service cost relating to defined benefit schemes	5,442	2,176
-Transfers to scheme	5,436	616
-Past service settlements	-	-
-Net Interest Cost	75	-
-Scheme Administration Costs	54	-
<b>Recognised in the Income Statement</b>	<b>18,279</b>	<b>8,795</b>
<b>Re-measurements of the Defined Benefit Obligation:</b>		
-Loss on Plan Assets	1,779	-
-Actuarial losses/(gains) arising from changes financial assumptions	(4,884)	-
-Actuarial losses/(gains) arising from changes demographic assumptions	(268)	-
<b>Recognised in the Statement of Comprehensive Income</b>	<b>(3,373)</b>	<b>-</b>

#### (ii.) Recognition in the Balance Sheet

The company's net defined benefit post-retirement scheme's deficit at 31 March, which has been recognised in the Balance Sheet, was as follows:

	2020 £000	2019 £000
Present value of defined benefit obligation	(25,880)	(2,176)
Fair value of plan assets	20,741	1,560
<b>Net recognised deficit in plans before deferred tax</b>	<b>(5,139)</b>	<b>(616)</b>
Net related deferred tax asset	977	117
<b>Net recognised deficit in plans after deferred tax</b>	<b>(4,162)</b>	<b>(499)</b>



## Notes to the financial statements

for the year ended 31 March 2020

### 22. Pension (continued)

(iii.) Financial and Demographic Assumptions

#### Financial Assumptions

The key financial assumptions used in the calculation of the defined benefit cost and the value of the defined benefit obligation are below. The defined benefit obligation was calculated based on assumptions at the end of the period. The defined benefit cost was calculated based on assumptions at the start of the period and at 31 December 2019 when the transfer of liabilities to the Hitachi section of the Railways Pension Scheme occurred.

	31 <sup>st</sup> March 2020	31 <sup>st</sup> December 2019	31 <sup>st</sup> March 2019
	% p.a.	% p.a.	% p.a.
Discount rate	2.50	2.05	2.45
Inflation (RPI)	2.50	2.95	3.20
Inflation (CPI)	1.80	2.25	2.20
Pensionable salary growth	2.90	3.35	3.60
Pension increases:			
-in deferment	1.80	2.25	2.20
-in payment	1.80	2.25	2.20

#### Demographic Assumptions

The post-retirement mortality assumptions used in valuing liabilities of the scheme are based on SAPS mortality tables published by the CMI in February 2014 scaled by a factor of 89% to 131% for males and 106% to 133% for females. There is additionally an allowance for future longevity improvements in line with the central CMI2019 projections with a long term rate of improvements of 1.25% p.a.

#### Sensitivity Analysis

An increase by 0.10% in the named financial assumptions would have the following effect on the defined benefit obligation:

	Impact on defined benefit liability Increase by 0.10% % p.a.
Discount rate	(2.30%)
Inflation (CPI)	+1.70%
Pensionable salary growth	+0.60%
Pension increases:	
-in deferment	+0.20%
-in payment	+1.50%

The key demographic assumption that can be expected to change the long term rate of improvement of 1.25% p.a.. A 0.25% increase in the long term rate of improvement would result in a 2% increase to the defined benefit liability.

## Notes to the financial statements

for the year ended 31 March 2020

### 22. Pension (continued)

#### (iv.) Reconciliation of the Defined Benefit Plan

The movements in the defined benefit scheme's obligation during the financial year was:

	2020 £000	2019 £000
Present value of the defined benefit obligation at the beginning of the financial year 1 April	(2,176)	-
-Current service cost	(5,442)	-
-Interest cost	(239)	-
-Transfer to scheme	(22,337)	(2,176)
-Employee contributions	(1,113)	-
-Benefits paid from section	275	-
-Actuarial gains arising from changes in financial assumptions	4,884	-
-Actuarial gains arising from changes in demographic assumptions	268	-
Present value of the defined benefit obligation at the end of the financial year 31 March	(25,880)	(2,176)
Fair Value of plan assets at the beginning of the financial year 1 April	1,560	-
-Interest income	164	-
-Transfer to scheme	16,901	1,560
-Employer contributions	3,111	-
-Employee contributions	1,113	-
-Benefits paid from scheme	(275)	-
-Administrative expenses	(54)	-
-Loss on Plan Assets	(1,779)	-
Fair value of plan assets at the end of the financial year 31 March	20,741	1,560

The fair values of each of the categories of the pension scheme's assets at 31<sup>st</sup> March 2020 and 31<sup>st</sup> December 2019, when scheme assets and liabilities were transferred to the Hitachi section of the Railways Pension scheme, were as follows:

	31 March 2020 £000	31 December 2019 £000
Pooled fund		
-Growth pooled fund	17,533	15,928
-Private equity pooled funds	1,446	1,376
-Illiquid growth pooled fund	1,287	1,246
-Infrastructure pooled fund	164	189
Fair value of scheme assets	20,430	18,739

#### (v.) Funding for defined benefit scheme

In line with requirements under the Pension Act 2004, the company is required to hold sufficient and appropriate assets to cover its "technical provisions". These provisions are determined on a triennial basis following agreement between the company and the trustees of the Scheme, the date of the most recent triennial valuation for the scheme was 31<sup>st</sup> December 2019. Any shortfall in assets covering technical provisions are required to be remedied and a recovery plan is agreed between the trustees of the scheme and the company in the form of a Schedule of Contributions signed by both parties.

Funding for the defined benefit scheme is carried out by cash contributions from the company. Employer contributions to the scheme for the year ending 31 March 2021 are expected to be £3,526,000.

## Notes to the financial statements

for the year ended 31 March 2020

### 23. Reconciliation of cash flows from operating activities

	2020 £000	2019 £000
Profit for the year	278,338	405,907
Adjustments for:		
Finance and other similar costs	2,786	1,700
Depreciation of property, plant and equipment	8,709	6,332
Loss on disposal of property, plant and equipment	108	1
Derecognition of property, plant and equipment	147	49
Proceeds from sale of investment	(214,710)	(324,239)
Amortisation of intangible assets	1,954	1,742
Finance and other similar income	(1,344)	(2,823)
Income tax	19,331	36,732
Pension payments made less pension expense	7,767	–
Foreign exchange (gain)/loss	(24,457)	38,226
Operating cash flows before movements in working capital	78,629	163,627
Movement in working capital		
Increase in inventories	3,355	(22,075)
Decrease in trade receivables and other assets	363,654	103,474
(Increase) in trade accounts payable and other liabilities	(400,085)	(133,721)
Cash generated from operations	45,553	111,305
Interest paid	(2,786)	(1,700)
Income tax paid	(10,657)	(28,775)
Net cash from operating activities	32,110	80,830

## Notes to the financial statements

for the year ended 31 March 2020

### 24. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the financial year (for information regarding outstanding balances at 31 March 2020 and 31 March 2019, refer to notes 15 and 16).

		<i>Sales to related parties*</i>	<i>Purchases from related parties*</i>	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>
		£000	£000	£000	£000
Entity with significant influence over the company and other subsidiaries:					
Hitachi, Ltd	2020	867	164,692	6,189	217,050
	2019	1,002	674,699	701	601,034
Hitachi Rail SpA	2020	712	118,402	281	18,170
	2019	198	37,515	5	451
Other related parties	2020	26,870	69,804	3,504	49,645
	2019	29,400	142,154	4,685	98,831
Joint venture:					
Agility Trains West (Holdings) Limited and its subsidiary companies and Agility Trains East (Holdings) and its subsidiary companies	2020	561,542	–	97,456	3,023
	2019	1,016,261	–	135,201	2,934

Year end balances arising from loans to / from related parties

	<i>Amounts owed by related parties</i>	<i>Amounts owed to related parties</i>
	£000	£000
Agility Trains East (Midco) Limited	67,049	–
Agility Trains West (Midco) Limited	96,992	–
Hitachi Europe Limited	132,839	–
Hitachi, Ltd.	–	582,031

The amounts outstanding are unsecured and will be settled in cash, no provisions for doubtful debts have been made in respect of the amounts owed by related parties. Related party transactions (continued)

#### **The ultimate parent**

The ultimate parent of the company is Hitachi, Ltd and is based and listed in Japan.

## Notes to the financial statements

for the year ended 31 March 2020

### 24. Related party transactions (continued)

#### *Terms and conditions of transactions with related parties*

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 March 2020 the company has not recorded any impairment of receivables relating to amounts owed by related parties (2019 – £nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

### 25. Subsequent Events

On 14 May 2020 the company entered into a loan agreement with Hitachi International Holland B.V. which resulted in the repayment of €655,000,000 to Hitachi, Ltd on 15 May 2020 and a new loan denominated in GBP and payable to Hitachi International Holland B.V. in the amount of £573,000,000.

On 6 August 2020 the company entered into an agreement to acquire the entire issued share capital of Perpetuum Limited, a technology firm that is pioneering digital technology to optimise railway operations using self-powered digital sensors to advance and digitise train maintenance. The transaction is subject to relevant anti-trust clearance being obtained, with closing expected in the autumn of 2020.

### 26. Ultimate parent undertaking and controlling party

The immediate and ultimate parent undertaking and controlling party and the parent undertaking of the largest group which includes the company and for which group financial statements are prepared, is Hitachi, Ltd. The group financial statements of this group are available to the public and may be obtained from:

Hitachi, Ltd  
6-6, Marunouchi 1 – chome  
Chiyoda-Ku  
Tokyo 100-8280  
Japan