

Registration number: 09860466

# West Midlands Trains Limited

Annual report and financial statements

for the year ended 31 March 2022



**West Midlands Trains Limited**

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**West Midlands Trains Limited**

**Company information**

<b>Directors</b>	D D G Booth J Edwards D S Lindsay D A Kaye Y Ieda I M McConnell
<b>Company secretary</b>	Brodies Secretarial Services Limited Capital Square 58 Morrison Street Edinburgh EH3 8BP
<b>Company number</b>	09860466
<b>Registered office</b>	2nd Floor St Andrew's House 18-20 St Andrew Street London EC4A 3AG
<b>Bankers</b>	Lloyds Bank PLC City Office PO Box 72 Bailey Drive Gillingham Business Park Kent ME8 0LS
<b>Auditor</b>	Ernst & Young LLP Senior statutory auditor 1 Colmore Square Birmingham B4 6HQ

## **West Midlands Trains Limited**

### **Strategic report**

#### **For the year ended 31 March 2022**

The Directors present their Strategic report and financial statements for West Midlands Trains Limited (the "Company" or "WMT") for the year ended 31 March 2022.

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

#### **Principal activity**

The principal activity of the Company during the financial year was the operation of passenger railway services. The Company does not anticipate any change to the principal activity in the foreseeable future.

#### **Business model**

The Company operated under a Emergency Recovery Measures Agreement ("ERMA") effective from 19 September 2020 for a period of 12 months to 19 September 2021 with the Department for Transport ("DfT") and transitioned to a National Rail Contract ("NRC") on 19 September 2021, which expires on 19 September 2026, with a break clause at the sole discretion of the Secretary of State after 3 years.

Our operations cover "turn up and go" metro-style commuter services in and around Birmingham and longer distance commuter services from the Trent Valley and Northampton to London and inter-urban services covering routes from London Euston to Birmingham, Liverpool, Worcester and Shrewsbury. The Company operates under two brand names, West Midlands Railway which covers the commuter services in and around Birmingham and London Northwestern Railway which broadly covers the longer distance commuter services from the Trent Valley and Northampton to London, the Inter-Urban services covering routes from London to Birmingham and the line connecting Birmingham and Liverpool.

#### **Business review and results**

In the year ended 31 March 2022, the profit before taxation was £5.7m (2021: £105.2m). Revenue was £609m (2021: £573.2m). The profit after tax in the year was £7.4m (2021: £123.9m). No exceptional items were recognised in the current year, however, in the prior year, profit after tax included net exceptional items of £98.8m and a tax credit of £18.7m which related to the termination of the Franchise.

The Company's net liabilities at the balance sheet date were £22.0m (2021: net liabilities of £35.4m).

Passenger revenue was higher during the year ended 31 March 2022 due to the return of passengers following the end a number of national and local lockdown restrictions and the conclusion of the 'stay at home', guidance issued by the UK Government. The increase in revenue has resulted in lower Government subsidy income of £311.7m in comparison to 2021 which was £448.4m.

Following the impact of the coronavirus pandemic, prior to the start of the financial year, on 19 September 2020 the Emergency Recovery Measures Agreement ("ERMA") was put in place by the DfT to mitigate the revenue, cash flow, and capital expenditure risks facing the Company. Under the ERMA, earnings are limited to a fixed management fee and a performance-based fee based on operational, customer experience, financial performance, business planning and capital works metrics. Further information on these metrics is discussed within the Key Performance Indicators section.

At the conclusion of the ERMA, the shareholders of the franchisee had a choice of either reverting to the original contract or terminating the contract. The latter option included a financial assessment of the franchise to determine whether a termination payment would be made. Given the significant reductions in forecast revenue, it was believed that the original contract was no longer commercially viable. The Company therefore entered a process to terminate the original contract with the DfT. As noted, the termination process included a financial assessment of the outcome of the contract if the pandemic had not occurred. If this assessment showed a loss, then a payment would be made to the Secretary of State in respect of this loss. On 13 May 2021, a Termination Sum of £90.5m was formally agreed with the Secretary of State. This was recognised as a provision in the prior year financial statements and paid in the current financial year.

## **West Midlands Trains Limited**

### **Strategic report (continued) For the year ended 31 March 2022**

#### **Business review and results (continued)**

Following agreement of the Termination Sum, the Company was eligible to enter into discussions in respect of a directly awarded National Rail Contract ("NRC") under which the Company will continue to deliver passenger rail services following the end of the ERMA. The NRC was signed on 10 September 2021, effective 19 September 2021 and running for a period of 5 years until 19 September 2026 with a break clause at the sole discretion of the Secretary of State after 3 years.

The NRC is structured around an Annual Business Plan process. The Secretary of State ("SoS") sets out detailed objectives and priorities each year in a Request for a Business Plan. The Company will then prepare the Business Plan on a basis that seeks to achieve these objectives and priorities, which will result in the agreement with the SoS to deliver to a Revenue Budget and Cost Budget, where the Government assume the majority of risk and reward.

In addition to the Termination Sum payment, a Settlement Agreement was signed with the DfT on 10 September 2021, which set out agreement of amounts due under the terms of the Franchise Agreement as at 1 March 2020, prior to Emergency Measures Agreement contract variation. The Settlement Agreement resulted in an amount of £23.3m being agreed for certain contractual liabilities. This amount was recognised as a provision in the prior year financial statements. Also included within the Settlement Agreement was a grant payable by the DfT to cover the final carrying value of fixed assets as at 19 September 2021 totalling £19.5m. This grant is held on the balance sheet in deferred income and released to the income statement in line with the depreciation charge of the assets to which the grant relates.

#### **Key performance indicators ("KPIs")**

Following the change in contractual requirements under the ERMA and NRC, the Company's key performance indicator is now the level of performance-based fees achieved in each assessment year across a number of key areas:

- Operational Performance
- Customer Experience
- Financial Performance
- Business Planning
- Capital Works

During the ERMA period covered in this financial year, WMT has achieved 72.0% of its performance-based fee. Having earned 69.7% for the ERMA period in the previous financial year, the total achieved for the full ERMA was 70.8%.

The performance-based fee for the NRC period to 31 March 2022 is still being assessed by the DfT.

Operational performance is central to the needs of the Company's customers. This was measured through the Public Performance Measure ("PPM") prior to commencement of the NRC, and is now measured through out T-3 (all station arrivals within 3 minutes of scheduled time). Our PPM performance achieved a moving annual average of 87.1% (2021: 92.3%) with the reduction being attributable to an increased timetable post pandemic lockdown.

As a Company, we are committed to invest in our employees and endeavour to respond to their views which we canvas through our annual engagement surveys. The November 2021 result of 69.0% (May 2021: 68.0%) highlighted the areas of focus for the Company in the subsequent financial year. The next engagement survey will be held in November 2022. Action plans have been put in place across the business for all key functions and will be subject to constant review and update throughout the year. The Board and Management teams have committed to reducing staff absence within the Company through a clear and supportive absence management process. Staff absence has decreased compared to 2021 to 7.6% (2021: 9.8%), this is primarily due to the impact of reduced nationwide lockdowns.

## **West Midlands Trains Limited**

### **Strategic report (continued) For the year ended 31 March 2022**

#### **Key performance indicators ("KPIs") (continued)**

The safety of the Company's employees and customers is of critical importance and working with our partners, British Transport Police, Network Rail, Department for Transport and other key stakeholders, the Company consistently endeavours to put in place initiatives, equipment and facilities that will help employees work and customers travel in safety. The Company measures staff safety using key performance indicators, (KPI's), all of which have either maintained or improved since 2021. This is an area with ongoing scrutiny and focus for the Company as we strive for continual improvement.

#### **Future developments**

The Company has operated from 19 September 2021 under the NRC, which runs for a period of 5 years until 19 September 2026 with a break clause at the sole discretion of the Secretary of State after 3 years. The Key Performance Indicators of the NRC contract on this are set out in section above.

There are uncertainties as to how rapidly demand will recover following the relaxation of coronavirus restrictions, so it is difficult to assess what lasting effect the impact of the coronavirus pandemic will have on the wider economy and the areas in which the Company operates.

The Company will continue to deliver tangible benefits for passengers and stakeholders, as well as establishing further upgrades as part of the NRC. The programme of initiatives includes the replacement of rolling stock fleet by 2023, station enhancements, expansions of car parks and depot works.

#### **Principal risk and uncertainties**

The Company is subject to internal and external risk factors. External risks include general economic conditions, competitor activity, and regulatory changes. Under the ERMA and now the NRC, the impact of these risks on revenue, cash flow, and capital expenditure have been largely mitigated as the risk has been transferred to the DfT. Internal risks include failure of internal controls, regulatory compliance and industrial disputes.

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

Under the terms of the ERMA and the NRC, the Company falls under the regulation of the Office of Road and Rail. Compliance with the NRC is an ongoing focus across the business to ensure that non-compliance does not become a risk to the Company. As a result of significant movements in the cost of fuel, the Company has hedges in place to stabilise our fuel cost.

#### **Section 172(1) Statement**

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

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

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

## **West Midlands Trains Limited**

### **Strategic report (continued) For the year ended 31 March 2022**

#### **Section 172(1) Statement (continued)**

##### **Overview of how the Directors discharged their duties**

The sections below set out how the directors have satisfied these duties for the year ended 31 March 2022.

##### **The Directors' approach to decision making**

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

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

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

##### **Our people**

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

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

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

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

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

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

## **West Midlands Trains Limited**

### **Strategic report (continued) For the year ended 31 March 2022**

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

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

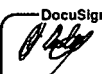
Stakeholders regularly receive both oral and written updates on the successes delivered and the challenges faced by the business and key stakeholders can raise any concerns directly with our External Relations Manager, who can share this with the relevant teams to be addressed.

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

#### **Our shareholders**

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

Approved by the Board on 17 October 2022 and signed on its behalf by:

DocuSigned by:  
  
6B8FA97DC82D437...  
D S Lindsay  
Director



## **West Midlands Trains Limited**

### **Directors' report For the year ended 31 March 2022**

The Directors present their annual report on the affairs of the Company, together with the audited financial statements and Auditor's report, for the year ended 31 March 2022.

#### **Dividend**

No dividend was paid or proposed in the year (2021: £nil).

#### **Directors**

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

D D G Booth

J Edwards

D S Lindsay

D A Kaye

Y Ieda

T Omori (resigned 21 June 2021)

J Kawasaki (appointed 22 June 2021 and resigned 19 September 2021)

The following Director was appointed after the year end:

I M McConnell (appointed 1 May 2022)

#### **Directors' indemnities**

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

#### **Energy and carbon reporting**

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

The Company manages this impact by having certified environmental and energy management systems. These systems support the overall sustainability strategy and contribute to nationwide rail industry initiatives, for example the UK Government's Net Zero Carbon target for 2050. We also work very closely with other stakeholders to ensure that we share information on environmental, energy and sustainability issues and to ensure that we are well placed to take advantage of best practices that are current or emerging.

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

UK Government Conversion Factors are utilised for greenhouse gas (GHG) reporting. The Company's Energy Management system is accredited to ISO:50001. We have also been audited against ISO14064- and against the environmental and sustainability requirements of our contract with Network Rail. These activities allows us to comply with UK Government's Streamlined Energy and Carbon Reporting Scheme ("SECR") requirements.

## **West Midlands Trains Limited**

### **Directors' report (continued) For the year ended 31 March 2022**

#### **Energy and carbon reporting (continued)**

The methodology used to collate the energy and carbon reporting figures follows guidance from ISO14064-1:2018 and in line with Environmental Reporting Guidelines including SECR guidance issued by the UK Government. Where collection of data utilises units other than kilowatt hours such as diesel consumption in litres, these figures have been converted into kilowatt hours using the DEFRA's Fuel Conversion Factors. In order to ascertain the carbon released from the energy consumption of the business, the UK Government's Greenhouse Gas Reporting Conversion Factors have been used for the year ended 31 March 2022.

Our efforts to reduce our GHG emissions and reduce the rail industry and national GHG emissions will be achieved through several measures including the following:

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

Thus far West Midlands Trains have:

- Continued with an LED lighting with passive infrared sensor project which will be rolled out to all WMT operated stations. The project has been delayed but is now continuing with a new contractor.
- Installed monitoring systems that allows us to monitor real time energy usage at most of our sites.
- Begun to install low-flow taps and blocks within cisterns to ensure that water consumption of the estate is efficient and reduced.
- Collaborated with our projects teams and construction partners to ensure that new installations in depots and stations are energy efficient and best practice for carbon emissions reduction. Elements of our depot upgrades included incorporating new outdoor LED lighting, shore supply systems and plumbed oil systems which will all help reduce energy consumptions and emissions.
- Completed energy audits at our depots and larger stations to target energy and usage reductions.

## West Midlands Trains Limited

### Directors' report (continued) For the year ended 31 March 2022

#### Energy and carbon reporting (continued)

The data below shows the Company's greenhouse gas emissions from its operations, expressed in tonnes of CO<sub>2</sub> emissions (tCO<sub>2</sub>e), for the financial year ended 31 March 2022:

	2022	2021
	Tonnes of CO <sub>2</sub> e	Tonnes of CO <sub>2</sub> e
Scope 1 Emissions (from combustion of gas and the consumption of fuel for the purposes of transport)	34,999	34,087
Scope 2 Emissions (resulting from purchase of electricity for its own use)	48,104	49,593
<b>Total Gross emissions - tonnes of CO<sub>2</sub>e</b>	<b>83,103</b>	<b>83,680</b>

The data below is the ratio of CO<sub>2</sub>e from UK operations per employee (based on average headcount) at the Company for the financial year ended 31 March 2022:

	2022	2021
Average number of employees	2,953	2,958
<b>Tonnes of CO<sub>2</sub>e per headcount employee</b>	<b>28.2</b>	<b>28.3</b>

The data below shows the Company's energy consumption from UK operations for the financial year ended 31 March 2022, expressed in Kilowatt Hours (kWh):

	2022	2021
	Total Kilowatt Hours	Total Kilowatt Hours
Electricity	226,553,575	212,715,856
Gas	10,306,073	7,944,491
Diesel	141,635,482	140,194,364
<b>Annual quantity of energy consumed from consumption of gas, fuel for the purposes of transport and the purchase of electricity for its own use</b>	<b>378,495,130</b>	<b>360,854,711</b>

#### Corporate governance

For the year ended 31 March 2022, under The Companies (Miscellaneous Reporting) Regulations 2019, the Company continued to adopt the Wates principles for large private companies as an appropriate framework when making disclosure about its corporate governance arrangements.

Each of the 6 Wates Principles has been considered individually within the context of the Company's operations. A supporting statement is set out below detailing how the Opportunity & Risk and Executive Remuneration principles have been applied. The principles of Purpose & Leadership, Board Composition, Directors Responsibilities and Stakeholder Relationships & Engagement are set out within the Section 172 (1) statement within the Strategic report.

#### Opportunity & risk

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

## **West Midlands Trains Limited**

### **Directors' report (continued) For the year ended 31 March 2022**

#### **Opportunity & risk (continued)**

The Company operates within a National Rail Contract with the Department for Transport and as at 31 March 2022. The Company acts to comply with the obligations of these agreements and act as a Good and Efficient Operator.

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

#### **Executive remuneration**

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

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

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

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

#### **Going concern**

The Directors are required to assess the availability of resources in order to meet the Company's financial obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements and have assessed the period to 31 October 2023. The Directors are also required to identify any material uncertainties that may cast doubt on the Company's ability to continue as a going concern and disclose these appropriately.

As set out in the Strategic report, the ongoing coronavirus pandemic has had a significant impact on the financial results and operations of the Company. The Company transitioned from the ERMA and Franchise Agreement to the new NRC from 19 September 2021 for a period of 5 years to 19 September 2026, with a break clause at the sole discretion of the Secretary of State after 3 years. Under the terms of the NRC, the DfT assumes the majority of revenue and cost risk, with the Company at risk for any disallowable costs. The DfT also retains working capital risk. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved.

As at the end of the financial year, the Company had outstanding PCS loans (including interest) of £54.6m. The final payment of the remaining loan and interest balance is 31 March 2024.

As described in the post balance sheet events note, it was announced on 23 August 2022 that Transport UK Group Limited are in the process of undertaking a management buyout of the UK Rail and Bus operations of Nederlandse Spoorwegen. The announcement does not impact on West Midlands Trains going concern position.

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

## **West Midlands Trains Limited**

### **Directors' report (continued) For the year ended 31 March 2022**

#### **Going concern (continued)**

The key judgements and assumptions applied include:

- the ongoing compliance with the NRC; and
- financial results and cash flows in line with forecasts.

#### **Conclusion**

As a result of the financial forecasts prepared, the terms of the PCS loan repayment, and continued government support under the NRC, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence from the date of approval of these financial statements through to 31 October 2023. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

#### **Employees**

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

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

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

The Company has a well-established employee communications process which includes face to face meetings, briefings, newsletters and magazines. These cover the Company's progress in meeting its targets, new developments affecting its operations and news and events from across its network. The Company has formal relationships with the Trade Unions which address both negotiation and consultation on key issues. Regular employee forums and Company council meetings continue to be held in order to maintain constructive relationships.

#### **Charitable and political contributions**

The Company made charitable donations of £nil during the year (2021: £nil). No political contributions were made in the year.

#### **Financial instruments**

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

## **West Midlands Trains Limited**

### **Directors' report (continued) For the year ended 31 March 2022**

#### **Post balance sheet events**

On 23rd August 2022 it was announced that Transport UK Group Limited will purchase the UK Rail and Bus business owned by Nederlandse Spoorwegen, of which West Midlands Trains Limited are part of. As of the date of signing these financial statements the transfer was still in progress.

#### **Auditor**

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

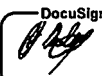
#### **Directors' statement as to disclosure of information to auditor**

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Approved by the Board on 17 October 2022 and signed on its behalf by:

DocuSigned by:  
  
.....8BBFA87DC82D437.....  
D S Lindsay  
Director

## **West Midlands Trains Limited**

### **Directors' responsibilities statement**

The Directors are responsible for preparing the Strategic report, the Director's report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not 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 Company's 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.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

### **Opinion**

We have audited the financial statements of West Midlands Trains Limited ('the Company') for the year ended 31 March 2022 which comprise the Income statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) ("FRS 101").

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

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

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial statement close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure key factors were considered in their assessment, including factors which we determined from our own independent risk assessment.
- We obtained management's forecast cash flows which covers the period to 31 October 2023. We have reviewed the forecasts and have modelled downside scenarios by taking into account the performance of the Company against the various criterion mentioned in the National Rail Contract ("NRC").
- We assessed the appropriateness of the scenarios modelled by management which included assessing how these compare with principal risks and uncertainties of the Company.
- We assessed the reasonableness of the cash flow forecast by evaluating the key assumptions used in the forecast. This included assessing whether key factors specific to the entity, such as the contractual payments under NRC, economic environment, and market/sector trends, were considered in management's assessment. We also assessed the completeness and appropriateness of the scenarios modelled by management and how they compare with principal risks of the Company.
- We have considered the methodology used to prepare the forecast and its compliance with the contractual terms of the NRC. We also tested the clerical accuracy and logical integrity of the model used to prepare the Company's going concern assessment.
- We reviewed the forecast liquidity through to 31 October 2023 and evaluated whether the Company has sufficient financial resources to meet its financial liabilities as and when they fall due.



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

### **Conclusions relating to going concern (continued)**

- We assessed the management's forecast cash positions and compared them to the funding arrangements, i.e., the repayment mechanism of the parental loan with the shareholders and compliance with the working capital provisions of the NRC.
- Our analysis also considered the mitigating actions that management could undertake in an extreme downside scenario and whether these were achievable and in control of management.
- We inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern and compared their response to the underlying supporting evidence (e.g., correspondence with Department for Transport).
- We considered whether the going concern disclosures included in the financial statements were appropriate and in conformity with applicable reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 31 October 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### **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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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

### **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 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 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

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

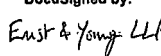
### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)**

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (UK GAAP), Companies Act 2006, Companies (Miscellaneous Reporting) Regulations 2019 and compliance with the relevant direct and indirect tax regulation in the United Kingdom. In addition, the Company has to comply with operational and employment laws and regulations including those relating to health & safety regulations and GDPR.
- We understood how the Company is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains and communicates its policies and procedures in these areas. We understood any entity level controls put in place by management to reduce the opportunities for fraudulent transactions. To corroborate compliance with those frameworks, we read minutes of meetings of those charged with governance and the Department for Transport, as well as reading press reports.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur through internal team conversations, enquiries of management and those charged with governance. Through these procedures we determined there to be a risk of management override in relation to the posting of non-standard journals to the Profit and Loss account in order to inflate subsidy claims made from the Department for Transport. We have audited the reconciliation of passenger revenue to third party LENNON reports and tested a sample of reconciling items. On the remaining revenue and cost balances, in addition to agreeing a sample to source documentation, we used data analytics to investigate any transactions which did not meet our expectations based on specific criteria to gain an understanding and agree to source documentation. Our procedures were designed to provide reasonable assurance that the financial statements were free from material misstatement.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations and to respond to the assessed risks. Our procedures included obtaining and reviewing board minutes, enquires of management and those charged with governance, and agreement of samples of transactions throughout the audit to supporting source documentation.

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.

DocuSigned by:  
  
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Adrian Roberts (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham

17 October 2022  
Date: .....

**West Midlands Trains Limited****Income statement****For the year ended 31 March 2022**

	Note	2022 £ 000	2021 £ 000
Revenue	5	609,043	573,188
Operating costs		<u>(600,416)</u>	<u>(560,989)</u>
<b>Operating profit</b>		8,627	12,199
Exceptional income	6	-	98,832
Interest receivable and similar income	7	2,397	240
Interest payable and similar expenses	8	<u>(5,325)</u>	<u>(6,105)</u>
<b>Profit before taxation</b>	12	5,699	105,166
Tax on profit	13	<u>1,721</u>	<u>18,744</u>
<b>Profit for the financial year</b>		<u><u>7,420</u></u>	<u><u>123,910</u></u>

The above results were derived from continuing operations.

The notes on pages 23 to 57 form an integral part of these financial statements.

**West Midlands Trains Limited****Statement of comprehensive income  
For the year ended 31 March 2022**

	Note	2022 £ 000	2021 £ 000
<b>Profit for the financial year</b>		<u>7,420</u>	<u>123,910</u>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Gains on cashflow hedges arising during the year		9,706	3,317
Cumulative loss arising on hedging instruments reclassified to profit or loss		(2,328)	-
Tax on items relating to components of other comprehensive income	13	<u>(1,340)</u>	<u>(630)</u>
		<u>6,038</u>	<u>2,687</u>
<b>Total comprehensive income for the financial year</b>		<u><u>13,458</u></u>	<u><u>126,597</u></u>

The notes on pages 23 to 57 form an integral part of these financial statements.

## West Midlands Trains Limited

### Balance sheet As at 31 March 2022

	Note	2022 £ 000	2021 £ 000
<b>Non-current assets</b>			
Intangible assets	14	153	2,945
Property, plant and equipment	15	49,810	31,199
Right-of-use assets	16	213,044	170,566
Deferred tax assets	18	11,719	7,800
Fuel hedge asset	25	4,065	-
		<u>278,791</u>	<u>212,510</u>
<b>Current assets</b>			
Income tax asset	13	9,919	13,145
Inventories	19	6,096	4,862
Trade and other receivables	20	55,051	41,589
Cash and cash equivalents	24	61,589	89,645
Fuel hedge asset	25	4,926	-
		<u>137,581</u>	<u>149,241</u>
<b>Total assets</b>		<u>416,372</u>	<u>361,751</u>
<b>Current liabilities</b>			
Trade and other payables	21	(119,814)	(90,828)
Lease liabilities	23	(68,681)	(42,091)
Fuel hedge liability	25	-	(170)
Provisions for liabilities	26	(1,058)	(115,291)
		<u>(189,553)</u>	<u>(248,380)</u>
<b>Non-current liabilities</b>			
Trade and other payables	21	(40,753)	(10,644)
Loans and borrowings	22	(53,599)	-
Lease liabilities	23	(154,456)	(137,629)
Fuel hedge liability	25	-	(545)
		<u>(248,808)</u>	<u>(148,818)</u>
<b>Total liabilities</b>		<u>(438,361)</u>	<u>(397,198)</u>
<b>Shareholders equity</b>			
Share capital	27	-	-
Hedging reserve	27	(5,459)	579
Retained earnings	27	27,448	34,868
<b>Total shareholders equity</b>		<u>21,989</u>	<u>35,447</u>
<b>Total equity and liabilities</b>		<u>(416,372)</u>	<u>(361,751)</u>


The notes on pages 23 to 57 form an integral part of these financial statements.

## **West Midlands Trains Limited**

### **Balance sheet (continued)** **As at 31 March 2022**

The financial statements of West Midlands Trains Limited (registration number: 09860466) were approved by the Board and authorised for issue on 17 October 2022

They were signed on its behalf by:

DocuSigned by:  
  
.....6B8FA97DC82D437...

D S Lindsay

Director

The notes on pages 23 to 57 form an integral part of these financial statements.

**West Midlands Trains Limited****Statement of changes in equity  
For the year ended 31 March 2022**

	<b>Called-up share capital £ 000</b>	<b>Hedging reserve £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total shareholders equity £ 000</b>
<b>At 1 April 2020</b>	-	(3,266)	(158,778)	(162,044)
Profit for the year	-	-	123,910	123,910
Other comprehensive income	-	2,687	-	2,687
<b>Total comprehensive income</b>	-	2,687	123,910	126,597
<b>At 31 March 2021</b>	-	(579)	(34,868)	(35,447)

	<b>Called-up share capital £ 000</b>	<b>Hedging reserve £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total shareholders equity £ 000</b>
<b>At 1 April 2021</b>	-	(579)	(34,868)	(35,447)
Profit for the year	-	-	7,420	7,420
Other comprehensive income	-	6,038	-	6,038
<b>Total comprehensive income</b>	-	6,038	7,420	13,458
<b>At 31 March 2022</b>	-	5,459	(27,448)	(21,989)

The notes on pages 23 to 57 form an integral part of these financial statements.



## **West Midlands Trains Limited**

### **Notes to the financial statements For the year ended 31 March 2022**

#### **1 General information**

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

The address of its registered office is:

2nd Floor St Andrew's House  
18-20 St Andrew Street  
London  
EC4A 3AG  
United Kingdom

The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 2 to 6.

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

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

#### **2 Adoption of new and revised standards**

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

In the current year, the Company has applied a number of amendments to International Accounting Standards ("IAS"), IFRS Standards and International Financial Reporting Interpretations Committee ("IFRIC") and Interpretations issued by the International Accounting Standards Board ("IASB") that are effective for an annual period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- COVID-19 - Related Rent Concessions (Amendment to IFRS 16)
- Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

##### **New and revised IFRS Standards in issue but not yet effective**

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

- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current;
- Amendments to IFRS 3 - Reference to the Conceptual Framework;
- Amendments to IAS 16 - Property, Plant and Equipment-Proceeds before Intended Use;
- Amendments to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contract;
- Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture;
- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies;

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **2 Adoption of new and revised standards (continued)**

- Amendments to IAS 8 - Definition of Accounting Estimates;
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

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

#### **3 Accounting policies**

##### **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Statement of compliance**

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

##### **Basis of accounting**

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

##### **Basis of preparation**

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

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Basis of preparation (continued)**

- the requirements of paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement of paragraph 52 of IFRS 16 Leases; and
- the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for the lease liabilities and other liabilities, and in total.

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

The principal accounting policies adopted as set out below.

##### **Prior year adjustment**

A prior year adjustment has been made in note 21 to the financial statements. This results in a reclassification of accrual balances amounting to £22.4m from trade payables to accruals. There has been no changes to net income or net assets as a result of this restatement and is presentational in nature.

##### **Going concern**

The Directors are required to assess the availability of resources in order to meet the Company's financial obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements and have assessed the period to 31 October 2023. The Directors are also required to identify any material uncertainties that may cast doubt on the Company's ability to continue as a going concern and disclose these appropriately.

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Going concern (continued)**

As set out in the Strategic report, the ongoing coronavirus pandemic has had a significant impact on the financial results and operations of the Company. The Company transitioned from the ERMA and Franchise Agreement to the new NRC from 19 September 2021 for a period of 5 years to 19 September 2026, with a break clause at the sole discretion of the Secretary of State after 3 years. Under the terms of the NRC, the DfT assumes the majority of revenue and cost risk, with the Company at risk for any disallowable costs. The DfT also retains working capital risk. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved.

As at the end of the financial year, the Company had outstanding PCS loans (including interest) of £54.6m. The final payment of the remaining loan and interest balance is 31 March 2024.

As described in the post balance sheet events note, it was announced on 23 August 2022 that Transport UK Group Limited are in the process of undertaking a management buyout of the UK Rail and Bus operations of Nederlandse Spoorwegen. The announcement does not impact on West Midlands Trains going concern position.

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

The key judgements and assumptions applied include:

- the ongoing compliance with the NRC; and
- financial results and cash flows in line with forecasts.

##### **Conclusion**

As a result of the financial forecasts prepared, the terms of the PCS loan repayment, and continued government support under the NRC, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence from the date of approval of these financial statements through to 31 October 2023. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

##### **Revenue**

Revenue is recognised after determining the transaction price and allocating it considering the related contracts and performance obligations and having given due consideration to the criteria of Principal versus Agent under IFRS 15 'Revenue from Contracts with Customers'.

##### ***Ticketed passenger revenue***

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

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

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Revenue (continued)**

###### ***Daily tickets***

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

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

###### ***Season tickets***

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

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

###### ***Flexi season tickets***

The new Flexi Season ticket offers 8 days of travel in 28 days - any time between two stations. This type of ticket was implemented and available for use from 28 June 2021.

The Company has assessed that there is one performance obligation for the provision of transport on the specified period and for the specified route set out on the ticket. Although the customer can use the service multiple times (over the course of 28 days), this does not constitute multiple performance obligations as this is a series of distinct services that are substantially the same and have the same benefit to the customer. As such this is one performance obligation.

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

###### ***Rail cards***

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

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

###### ***Station access***

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

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Revenue (continued)**

###### ***Train maintenance***

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

###### ***Commission***

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

###### ***Car park income***

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

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

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

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

###### ***Other operating income***

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

###### ***Rental income***

Rental income represents income from renting out station access to third party retail outlets. The Company has assessed that there is only one performance obligation for rental income and the Company transfers control of the goods provided over the period of the contract. The transaction price of each contract is the rental charge to the tenant which is recognised on a straight-line basis over the financial reporting period.

###### ***Subsidy income***

In accounting for the subsidies the Company receives under the ERMA and NRC, the Company applies IAS 20, Government Grants, ERMA and NRC management and performance based fees are recognised in subsidy income. Financial support from the Department for Transport relates to revenue received to offset operating losses caused by the COVID-19 pandemic in line with the terms of the ERMA and NRC. It is recognised on an accruals basis.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 3 Accounting policies (continued)

##### Exceptional costs/income

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's financial performance. Transactions which may give rise to material exceptional items include impairments of assets, restructuring or regulatory costs or provisions, litigation settlements and provisions for onerous contracts. Exceptional income includes the reversal of exceptional costs.

##### Taxation

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

##### Current tax

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

##### Deferred tax

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

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

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

##### Property, plant and equipment

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

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

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

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

##### Assets under construction

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

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Investments**

Investments are accounted for at cost less, where appropriate, provisions for impairment.

##### **Leases**

###### *Initial application*

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

###### **Lease liability**

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

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

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

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

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

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

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

###### **Extension options**

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

- (a) is within the control of the lessee to extend the lease term; and
- (b) whether the lessee is reasonably certain to exercise an option to extend.



## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Leases (continued)**

##### **Extension options (continued)**

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

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

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

- (a) The importance of that underlying asset to our operations and that there is a no suitable alternative; and
- (b) In the event there is no contract variation in place and there is no option within the agreement to extend the contractual term, then no extension period should be recognised.

##### **Right-of-use asset**

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

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

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

The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the balance sheet.

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

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

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component based on the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 3 Accounting policies (continued)

##### Right-of-use asset (continued)

###### *Operating lease agreements*

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged to the income statement on a straight-line basis over the period of the lease. At the end of certain operating leases, the Company has an obligation to return the assets to the lessor in an appropriate condition. The anticipated costs of meeting these return conditions are included within the financial statements.

##### Sublease income

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

##### Intangible assets

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

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

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

##### Pre-contract costs

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

##### Impairment of tangible and intangible assets

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

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

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

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Impairment of tangible and intangible assets (continued)**

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

##### **Inventories**

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

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

##### **Cash and cash equivalents**

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

##### **Provisions for liabilities**

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, considering the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

##### **Capital grants**

Income received in relation to fixed asset acquisitions is held on the balance sheet until the asset to which the grant relates to is completed. On completion the grant is depreciated in line with the depreciation policy for the relevant asset.

##### **Defined benefit pension obligation**

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

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

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Defined benefit pension obligation (continued)**

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

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

##### **Financial instruments**

The Company uses derivative financial instruments such as commodity swap fuel contracts to hedge its risks associated with the movement in fuel prices. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

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

The Company has commodity swap fuel contracts that were put in place during 2017 and expire at the end of 2022 and 2023.

##### **Financial assets**

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

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

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **3 Accounting policies (continued)**

##### **Financial instruments (continued)**

###### **Financial assets (continued)**

###### *Trade and other receivables*

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

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

###### **Loans and borrowings**

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

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

###### **Financial liabilities**

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

###### *Trade and other payables*

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

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

###### *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of the financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

###### *Derecognition of financial liabilities*

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

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **4 Critical accounting judgements and key sources of estimation uncertainty**

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

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

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

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

#### ***Assessment of asset impairment and the financial outturn of the West Midlands contract***

Under the terms of the NRC and by the nature of the business, the Company falls under the regulation of the Department for Transport and the Office of Rail Regulation. Compliance with the terms of the NRC and delivery of the business plan commitments included in the agreement represent a key area of risk to the business.

Following the signing of the NRC and the settlement of outstanding balances from the previous Franchise Agreement, the directors note that there are no indicators of impairment, and therefore, as allowed under IAS 36, no formal assessment has been carried out.

Under the NRC the DfT assumes the majority of revenue and cost risk, with the Company at risk for any disallowable costs. The DfT also retains working capital risk. The Company receives a fixed management fee with the potential to earn an additional performance related fee if certain targets are achieved. Based on the positive returns expected across the life of the NRC, no onerous contract provision is required.

#### ***Pension and other post-employment benefits***

The costs of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumptions are based on the census data for statutory funding results of the actuarial valuation of the Scheme as at 31 March 2022. See note 32 for further details.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 5 Revenue

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

	2022 £ 000	2021 £ 000
Passenger income	216,815	73,784
Subsidy income	311,735	448,421
Other operating income	78,749	49,383
Rental income	1,744	1,600
	<u>609,043</u>	<u>573,188</u>

#### 6 Exceptional income

	2022 £ 000	2021 £ 000
Reversal in relation to onerous contracts/exit liability	-	109,890
Impairment reversal on property, plant and equipment	-	12,232
Expense – end of franchise settlement	-	(23,290)
	<u>-</u>	<u>98,832</u>

#### 7 Interest receivable and similar income

	2022 £ 000	2021 £ 000
Interest income on bank deposits	29	240
Interest on overpaid corporation tax	40	-
Gains on derivative financial instruments (note 25)	2,328	-
	<u>2,397</u>	<u>240</u>

#### 8 Interest payable and similar expenses

	2022 £ 000	2021 £ 000
Net interest cost on pension scheme (note 32)	-	83
Bond and interest costs payable to group undertakings	1,547	433
Interest on lease liabilities (note 23)	3,778	5,589
	<u>5,325</u>	<u>6,105</u>

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 9 Staff costs

The aggregate remuneration comprised:

	2022 £ 000	2021 £ 000
Wages and salaries	147,536	146,787
Social security costs	15,386	15,538
Pension costs, defined benefit scheme	10,217	10,159
	<u>173,139</u>	<u>172,484</u>

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

	2022 No.	2021 No.
Drivers	867	838
On-train staff	628	622
Station staff	541	573
Fleet maintenance staff	365	365
Management and administrative	552	560
	<u>2,953</u>	<u>2,958</u>

#### 10 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2022 £ 000	2021 £ 000
Remuneration	412	357
Company pension contributions	37	38
	<u>449</u>	<u>395</u>

The number of Directors for whom retirement benefits are accruing under defined benefit and defined contribution schemes amounted to 2 (2021: 3).

In respect of the highest paid Director:

	2022 £ 000	2021 £ 000
Remuneration	235	237
Company contributions to money purchase pension schemes	23	21
	<u>258</u>	<u>258</u>

Of the directors that were in office during the year, one was employed by and received remuneration from the Company (2021: 1) and one was employed by and received remuneration from Abellio Transport Holdings Limited (2021: 1) with the remuneration and costs recharged to the Company. The remaining directors are employed by and receive their remuneration from shareholding companies with no recharge to the Company.



## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 11 Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2022 £ 000	2021 £ 000
Fees payable to the Company's auditors' for the audit of the Company's annual accounts	303	315
Other non-audit services	25	22
	<u>328</u>	<u>337</u>

#### 12 Profit before taxation

Profit before taxation has been arrived at after charging/(crediting):

	2022 £ 000	2021 £ 000
Operating expenditure relating to agreements on station and depot leases outside the scope of IFRS16	10,748	11,115
Operating lease expense - rolling stock to operating expenditure relating to agreements on rolling stock leases outside the scope of IFRS16	18,482	27,376
Owned assets depreciation expense (note 15)	5,894	4,641
Impairment reversal on property, plant and equipment (note 6)	-	(12,232)
Inventory expensed during the year (note 19)	16,194	12,211
Auditor's remuneration (note 11)	328	337
Network Rail access charges	72,364	62,664
Depreciation on right of use assets (note 16)	67,537	64,527
Reversal in relation to onerous contracts/exit liability (note 6)	-	109,890
Expense – end of franchise settlement (note 6)	<u>-</u>	<u>(23,290)</u>

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 13 Taxation

	2022 £ 000	2021 £ 000
Tax credited for the year in the income statement:		
<b>Current taxation</b>		
UK corporation tax	-	-
Adjustments in respect of prior periods	3,539	(13,158)
Total current income tax	3,539	(13,158)
<b>Deferred taxation</b>		
Current year	1,109	(669)
Adjustment in respect of prior periods	(3,267)	(4,917)
Effect of changes in tax rates	(3,102)	-
Total deferred taxation (note 18)	(5,260)	(5,586)
Tax receipt in the income statement	(1,721)	(18,744)

The tax on profit before tax for the year is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%).

The credit for the year can be reconciled to the profit in the income statement as follows:

	2022 £ 000	2021 £ 000
Profit before taxation	5,699	105,166
Tax on profit at standard UK tax rate of 19% (2021: 19%)	1,083	19,982
<b>Effects of:</b>		
Adjustments in respect of prior periods	273	(18,075)
Expenses not deductible	1,098	732
Income not taxable	(1,448)	(21,412)
Amounts not recognised	375	29
Tax rate changes	(3,102)	-
Tax credit for the year	(1,721)	(18,744)

#### Factors that may affect future tax charges

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate had been substantively enacted at the balance sheet date and deferred tax balances as at 31 March 2022 are measured at 25%.

	2022 £ 000	2021 £ 000
<b>Current assets:</b>		
Corporation tax	9,919	13,145

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 13 Taxation (continued)

	2022 £ 000	2021 £ 000
<b>Deferred tax:</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
<i>Cash flow hedges</i>		
Tax on items relating to components of other comprehensive income	1,340	630
Total income tax recognised in other comprehensive income	1,340	630

As at 31 March 2022 there is a current tax asset of £9.9m (2021: £13.1m) and a deferred tax asset of £11.7m(2021: £7.8m), refer to note 18 for the composition of deferred tax asset balance including losses carried forward which the Company expects to be fully utilised due to having sufficient expected future profits for this balance to unwind against in full.

#### 14 Intangible assets

	Software costs £ 000	Assets under development £ 000	Pre-contract costs £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 April 2021	991	2,945	4,093	8,029
Additions	-	349	-	349
Disposals	-	(3,141)	-	(3,141)
At 31 March 2022	991	153	4,093	5,237
<b>Amortisation</b>				
At 1 April 2021	991	-	4,093	5,084
Amortisation charge	-	-	-	-
At 31 March 2022	991	-	4,093	5,084
<b>Carrying amount</b>				
At 31 March 2022	-	153	-	153
At 31 March 2021	-	2,945	-	2,945

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 15 Property, plant and equipment

	Assets under construction £ 000	Land and buildings £ 000	Plant and machinery £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 April 2021	16,238	7,579	18,870	42,687
Additions	24,505	-	-	24,505
Transfers	(5,930)	1,421	4,509	-
At 31 March 2022	34,813	9,000	23,379	67,192
<b>Depreciation</b>				
At 1 April 2021	-	2,816	8,672	11,488
Charge for the year	-	1,245	4,649	5,894
At 31 March 2022	-	4,061	13,321	17,382
<b>Carrying amount</b>				
At 31 March 2022	34,813	4,939	10,058	49,810
At 31 March 2021	16,238	4,763	10,198	31,199

#### 16 Right-of-use assets

	Rolling stock £ 000	Property £ 000	Plant and equipment £ 000	Vehicles £ 000	Total £ 000
<b>Cost</b>					
At 1 April 2021	344,553	4,916	4,226	511	354,206
Additions	110,058	-	-	-	110,058
Disposals	(4,074)	-	-	-	(4,074)
At 31 March 2022	450,537	4,916	4,226	511	460,190
<b>Depreciation</b>					
At 1 April 2021	181,139	1,482	810	209	183,640
Charge for the year	66,090	537	773	137	67,537
Eliminated on disposal	(4,031)	-	-	-	(4,031)
At 31 March 2022	243,198	2,019	1,583	346	247,146
<b>Carrying amount</b>					
31 March 2022	207,339	2,897	2,643	165	213,044
31 March 2021	163,414	3,434	3,416	302	170,566

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 17 Investments

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

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

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

#### 18 Deferred tax

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

	2022 £ 000	2021 £ 000
Brought forward as at 1 April	7,800	2,844
Deferred tax credit in income statements for the period	1,992	669
Deferred tax charge in income statements in respect of prior periods	3,267	4,917
Deferred tax credit in other comprehensive income for the period	(1,340)	(630)
<b>Deferred tax asset as at 31 March</b>	<b>11,719</b>	<b>7,800</b>

Deferred tax recognised on following components:

	2022 £ 000	2021 £ 000
Fixed assets	(21)	2,844
Temporary differences trading	(789)	4,917
Losses	11,982	669
IFRS 16	547	(630)
	<b>11,719</b>	<b>7,800</b>

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

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 19 Inventories

	2022	2021
	£ 000	£ 000
Engineering spare parts and fuel	5,749	4,419
Uniform stocks	347	443
	<u>6,096</u>	<u>4,862</u>

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

The value of inventory expensed in income statement during the year was £16,194k (2021: £12,211k).

Within engineering spares a provision of £95k (2021: £507k) in relation to obsolete and slow-moving stock has been recognised.

#### 20 Trade and other receivables

	2022	2021
	£ 000	£ 000
Trade receivables	8,056	5,021
Amounts owed by group undertakings	63	3,763
Other receivables	16,063	15,539
Social security and other taxes	8,093	5,781
Prepayments and accrued income	<u>22,776</u>	<u>11,485</u>
	<u>55,051</u>	<u>41,589</u>

Amounts owed by group undertakings are unsecured, repayable on demand and bear no interest.

Included within amounts owed by group undertakings is an income tax debtor of £63k (2021: £3,700k).

Trade receivables are stated after provisions for expected credit losses of £219k (2021: £18,351k). The prior period expected credit loss provision of £17,540k for the late delivery of our new trains was utilised following a commercial settlement.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 21 Trade and other payables

	2022	(Restated) 2021
	£ 000	£ 000
Amounts falling due within one year		
Trade payables	44,972	39,078
Amounts due to group undertakings	1,569	1,515
Social security and other taxes	3,954	3,901
Deferred income	16,485	7,643
Other payables	16,596	11,443
Accruals	36,238	25,944
Deferred season ticket income	-	1,304
	<u>119,814</u>	<u>90,828</u>

A reclassification adjustment has been made from trade payables to accruals amounting to £22.4m in the prior year. See note 3 for further details of the restatement.

Amounts due to group undertakings are unsecured, repayable on demand and bear no interest.

The deferred season ticket income bond was cancelled in September 2021 and the liability transferred to the DfT relating to season ticket income.

	2022	2021
	£ 000	£ 000
Amounts falling due after more than one year:		
Deferred income	<u>40,753</u>	<u>10,644</u>

Deferred income due after more than one year is capital funding received from the DfT that is not expected to unwind over the next 12 months.

#### 22 Loans and borrowings

	2022	2021
	£ 000	£ 000
<b>Non - current liabilities</b>		
Loans due to NS Groep NV	37,573	-
Loans due to Mitsui & Co Ltd	8,013	-
Loans due to East Japan Railway Company	<u>8,013</u>	<u>-</u>
	<u>53,599</u>	<u>-</u>

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 22 Loans and borrowings (continued)

On 17 September 2021, the Company utilised £53,599k of their parental company support drawdown ("PCS") facility. This consisted of £37,573k from NS Groep NV, £8,013k from Mitsui & Co. Ltd and £8,013k from East Japan Railway Company. The full value was repayable on 31 March 2023, however, this was extended to 31 March 2024 on 21 February 2022.

The total drawdown balance at the end of the year was £53,599k (2021: £nil).

The rate of interest charged was 4% per annum. The funds are drawn down against the contingent subordinated loan facilities from the shareholders that are secured by bonds (see note 30 for details).

Included within bond and interest costs relating to group undertakings in note 8 is £1,140k (2021: £nil) of interest relating to the PCS drawdown. The interest is accrued and is included within amounts due to group undertakings.

#### 23 Lease liabilities

	2022 £ 000
<b>Maturity analysis:</b>	
Due up to one year	70,019
Due between one and five years	156,018
Due after five years	392
	<u>226,429</u>
Less: discounted interest	<u>(3,292)</u>
	<u><u>223,137</u></u>
<b>Analysed as:</b>	
Non-current	154,456
Current	68,681
	<u><u>223,137</u></u>

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

The total cash outflow for leases during the year is £70,418k.

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



## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 23 Lease liabilities (continued)

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

- Class 139 - the extension option has not been exercised
- Class 170 - the extension option has been exercised
- Class 172 - the extension option has been exercised
- Class 196 - the extension option has been exercised
- Class 230 - the extension option has not been exercised
- Class 323 - the extension option has been exercised
- Class 350 - the extension option has been exercised

Movements in lease liability during the year:

	IFRS16 liability	Other leases	Total leases
	£ 000	£ 000	£ 000
Liability recognised at 1 April 2021	172,080	7,640	179,720
Additions during the year	110,058	-	110,058
Payments made during the year	(68,839)	(1,580)	(70,419)
Interest expense	3,590	188	3,778
<b>Balance as at 31 March 2022</b>	<b>216,889</b>	<b>6,248</b>	<b>223,137</b>

#### 24 Cash and cash equivalents

	2022	2021
	£ 000	£ 000
Cash at bank and in hand	61,589	89,645

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 25 Fuel hedge asset/liability

	2022 £ 000	2021 £ 000
<b>Current asset</b>		
Fuel hedge asset	4,926	-
<b>Current liabilities</b>		
Fuel hedge liability	-	170
	2022 £ 000	2021 £ 000
<b>Non-current asset</b>		
Fuel hedge asset	4,065	-
<b>Non-current liabilities</b>		
Fuel hedge liability	-	545

There are two commodity swap contracts that have been put in place for West Midlands Trains Limited.

The first in 2017 with HSBC Bank plc and the second in 2020 with Mitsui Bussan Commodities Ltd. The HSBC hedge expires on 31 December 2022 and the Mitsui hedge expires on 31 December 2023.

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

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

At 31 March 2022, the mark to market (fair value) of West Midlands hedges was an £9.0m asset. Due to timetable restrictions and reduced passengers flows this has resulted in the hedges becoming partly ineffective as the volume of diesel fuel used is less than the volume hedged. As at 31 March 2022, the ineffective portion of the £9.0m fair value hedge asset was £2.3m and correspondingly a gain of £2.3m has been recognised in the profit and loss account in line with IFRS9.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 26 Provisions

	Dilapidations	Passenger insurance provision	Annual leave provision	Onerous contracts provision/ exit liability	Total
	£000	£000	£000	£000	£000
<b>At 1 April 2021</b>	<b>597</b>	<b>514</b>	<b>380</b>	<b>113,800</b>	<b>115,291</b>
Provided in the year	4	212	210	-	426
Utilised in the year	(112)	(321)	(380)	(113,800)	(114,613)
Releases	-	(46)	-	-	(46)
<b>At 31 March 2022</b>	<b>489</b>	<b>359</b>	<b>210</b>	<b>-</b>	<b>1,058</b>
Analysed as:					
Current	489	359	210	-	1,058
	<b>489</b>	<b>359</b>	<b>210</b>	<b>-</b>	<b>1,058</b>

#### Passenger insurance provision

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

#### Dilapidations

The provision relating to dilapidations was taken over by West Midlands Trains Limited at the commencement of the franchise to cover payments due to Angel Trains for rolling stock dilapidation at the end of the contractual term for these trains. Movements in the provision relate to reassessment of dilapidations amount and reduction in the number of Class 170 trains.

#### Annual leave provision

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

#### Onerous contract provision/exit liability

The onerous contract and exit liability provision related to the unavoidable costs under the ERMA contract. This was settled during the year and the provision was fully utilised.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 27 Equity

##### Authorised

	2022	2021
	£	£
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

##### Allotted, called-up and fully paid

	2022	2021
	£	£
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

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

The Company's other reserves are as follows:

##### *Retained earnings*

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

##### *Hedging reserve*

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

#### 28 Capital commitments

The total value of leases which have not yet commenced, but to which the Company is committed is £153.2m (2021: £192.1m).

The leases that have not commenced are new trains that will be brought into use during the period of the NRC. The train leases will be added to the Right-of-use asset and corresponding liability when they have been accepted.

#### 29 Other contractual commitments

##### **Other contractual commitments:**

At the balance sheet date the Company had outstanding commitments for future minimum payments under non-cancellable operating leases, which relate to, station and depot access agreements and non-capital elements of rolling stock agreements. These leases do not meet the criteria to be accounted for IFRS 16.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 29 Other contractual commitments (continued)

	2022 £ 000	2021 £ 000
Within one year	35,784	37,771
In two to five years	119,523	152,310
In over five years	-	-
	<u>155,307</u>	<u>190,081</u>

#### Operating leases:

*Operating lease agreements where the Company is the lessor*

The Company leases office and retail spaces at its stations.

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

	2022 £ 000	2021 £ 000
Within one year	609	739
More than one year	<u>2,067</u>	<u>2,418</u>
	<u>2,676</u>	<u>3,157</u>

#### 30 Contingent liabilities

Under the old Franchise Agreement, the Company has a subordinated loan facility with NS Groep NV, Mitsui & Co and East Japan Railway Company of £162,332,200 in order to meet any financing requirements relating to the Franchise.

Under the NRC, the Company has a guarantor support facility with NS Groep NV and Mitsui & Co of £6,000,000 in order to meet any financing requirements over the contract term. This facility is supported by funding deed bonds of £6,000,000. An Early Termination Indemnity Agreement ("ETIA") is also required under the NRC, requiring guarantor support of £6,000,000. This agreement is supported by bonds of £6,000,000.

The Company has procured a guarantee in favour of Travelers Insurance Company Ltd for £240,982 (2021: £451,173).

#### 31 Related party transactions

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

**West Midlands Trains Limited****Notes to the financial statements (continued)**  
**For the year ended 31 March 2022****31 Related party transactions (continued)****31 March 2022:**

	<b>Sales to Related Parties</b>	<b>Purchases from Related Parties</b>	<b>Amounts owed from/ to Related Parties</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Abellio Transport Holdings Limited	61	2,352	24
Abellio London Limited	-	13,746	904
Abellio Transport Holdings B.V	-	436	-
N.S. Groep N.V	-	-	38,372
Abellio East Anglia Limited	-	277	138
Abellio Scotrail Limited	1	51	10
Abellio East Midlands Limited	1	4,657	826
Mitsui & Co Limited	-	-	8,183
East Japan Railway Company	-	-	8,183
	<u>63</u>	<u>21,519</u>	<u>56,640</u>

The Company holds a hedge relationship with Mitsui Bussan Commodities Ltd, which is a subsidiary of Mitsui & Co Ltd. The value outstanding at year-end was a debtor of £170,360 (2021: £180,000).

**31 March 2021:**

	<b>Sales to Related Parties</b>	<b>Purchases from Related Parties</b>	<b>Amounts owed from/ to Related Parties</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
Abellio Transport Holdings Limited	236	3,143	1,838
Abellio London Limited	-	10,199	1,272
Abellio Transport Holdings B.V	-	408	66
Abellio East Anglia Limited	-	187	80
Abellio Scotrail Limited	-	41	8
Abellio East Midlands Limited	35	2,474	1,502
	<u>271</u>	<u>16,452</u>	<u>4,766</u>

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **31 Related party transactions (continued)**

Abellio Transport Holdings Limited - Provision of Delay Repay services, management of station retail activities, provision of commercial analysis and staff secondments.

Abellio London Limited - The provision of rail replacement bus services.

Abellio Transport Holdings B.V. - The recharge of Microsoft Licenses.

Abellio East Anglia Limited - The recharge of shared software costs.

Abellio Scotrail Limited - The recharge of staff secondment costs.

Abellio East Midlands Limited - The recharge of sublease costs for Class 170 units.

N.S. Groep N.V. - Parental Company Support facility and interest costs on the Performance Bond and PCS Bond.

Mitsui & Co Limited - Parental Company Support facility and interest costs on the Performance Bond and PCS Bond.

East Japan Railway Company - Parent Company Support facility and interest costs on the Performance Bond and PCS Bond. East Japan Railway Company ceased to be Shareholders on 19 September 2021.

#### **32 Retirement benefits**

The Company is a member of a defined benefit pension scheme, which is funded. The Company commenced contributing to the defined benefit scheme on 10 December 2017, when the franchise started. All eligible employees are offered membership of the Railway Pension Scheme. The Company's total pension costs amount to £10.4m during the current reporting year (2021: £10.3m). The pension costs have been grouped under administrative expenses.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the Company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 7.93% (2021: 7.93%) for employees and 11.90% (2021: 11.90%) for employers.

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of earnings increase would be 3.2% per annum and the rate of inflation would be (RPI/CPI) 3.70%/3.20% per annum. The valuation was made using the projected unit method.

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

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

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 32 Retirement benefits (continued)

Any deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term. A 'franchise adjustment' is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term which the Company will not be required to fund, discounted back to present value.

The valuations used have been based on the most recent actuarial valuation at 31 March 2022 and updated by the Company actuary in order to assess the liabilities of the schemes as at the subsequent balance sheet dates. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are applied to each category of scheme assets. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit method.

The breakdown of asset categories is as follows:

	2022		2021	
	Growth Pooled fund	Illiquid Growth Pooled fund	Growth Pooled fund	Illiquid Growth Pooled fund
	%		%	
Private Equity	-	87.55	-	52.44
Ground Rents	-	-	-	10.85
Lifetime Mortgages	-	-	-	21.11
Long Lease Commercial Property	10.21	-	-	8.08
Direct Investments	-	9.17	-	-
Property	-	-	10.23	-
Absolute Return Strategies	6.37	-	6.29	-
Global Equities	68.88	-	66.27	-
Global Credit/Fixed Income	0.68	-	7.17	4.81
Cash	13.86	3.28	10.04	2.71
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

#### Net defined benefit position

	2022 £ 000	2021 £ 000
Fair value of scheme assets	699,182	619,378
Present value of scheme liabilities	(996,629)	(944,172)
Franchise adjustment	<u>178,469</u>	<u>194,876</u>
Defined benefit obligation	(118,978)	(129,918)
Members' share of deficit	<u>(118,978)</u>	<u>129,918</u>
Deficit in the scheme	<u>-</u>	<u>-</u>

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



## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 32 Retirement benefits (continued)

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

	2022 £ 000	2021 £ 000
Current service cost - employer	24,628	19,039
Administrative expenses - employer	967	1,952
Interest income on pension scheme assets	(8,315)	(7,618)
Interest on franchise adjustment	(4,385)	(3,172)
Interest expense on defined benefit obligation	12,608	10,707
Franchise adjustment	(15,142)	(10,630)
Amount charged in arriving at the profit for the financial year	10,361	10,278

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

	2022 £ 000	2021 £ 000
Loss from changes in demographic assumptions	(1,975)	(2,833)
Actuarial loss arising from changes in financial assumptions	11,827	179,475
Loss on scheme assets excluding interest income	(69,759)	(95,290)
Gain/(loss) on change in members' share	23,973	(34,409)
Gain/(loss) on franchise adjustment	35,934	(51,620)
Effect of experience adjustments	-	4,677
Total re-measurement recognised in the Statement of comprehensive income	-	-

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

	2022 £ 000	2021 £ 000
Fair value of scheme assets at 1 April	619,378	517,998
Interest income - employer	8,315	7,618
Interest income - employee	5,543	5,079
Cash contributions - employer	10,361	10,278
Cash contributions - employee	6,774	6,710
Benefits paid	(19,336)	(20,342)
Administration expense - employer	(1,612)	(3,253)
Gain on scheme assets excluding interest income	69,759	95,290
Fair value of schemes assets at 31 March	699,182	619,378

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

The defined benefit obligation is £699m (2021: £619m) from plans that are wholly or partly funded.

## West Midlands Trains Limited

### Notes to the financial statements (continued) For the year ended 31 March 2022

#### 32 Retirement benefits (continued)

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

	2022 £ 000	2021 £ 000
Defined benefit obligation at 1 April	944,171	733,755
Current service cost - employer	24,628	19,039
Current service cost - employee	16,301	12,555
Interest on benefit obligation - employer	12,608	10,707
Interest on benefit obligation - employee	8,405	7,138
Benefits paid	(19,336)	(20,342)
Gain from changes in demographic assumptions	(1,975)	(2,833)
Remeasurements - change in financial assumptions	11,827	179,475
Effect of experience adjustments	-	4,677
Defined benefit obligation at 31 March	996,629	944,171

The following assumptions have been used:

	2022	2021
Rate of increase in salaries	3.20%	2.70%
Rate of increase in pensions	3.20%	2.70%
Discount rate	2.70%	2.25%
Inflation assumption	3.20%	2.70%

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

<i>Assumption</i>	<i>Change in Assumption</i>	<i>Impact on scheme liabilities</i>
Discount rate	Increase/decrease by 25 bps	Decrease by 2.45% / increase by 2.95%
Inflation assumption	Increase/decrease by 25 bps	Increase by 2.95% / decrease by 3.45%
Rate of salary increases	Increase/decrease by 25 bps	Increase by 2.95% / decrease by 3.45%
Post retirement mortality	Increase in life expectancy by 1 year	Increase by 3.5%

#### 33 Ultimate parent and controlling undertaking

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

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

## **West Midlands Trains Limited**

### **Notes to the financial statements (continued) For the year ended 31 March 2022**

#### **34 Post balance sheet events**

On 23rd August 2022 it was announced that Transport UK Group Limited will purchase the UK Rail and Bus business owned by Nederlandse Spoorwegen, of which West Midlands Trains Limited are part of. As of the date of signing these financial statements the transfer was still in progress.

## **ELECTRONIC RECORD AND SIGNATURE DISCLOSURE**

From time to time, EY (we, us or Company) may be required by law to provide to you certain written notices or disclosures. Described below are the terms and conditions for providing to you such notices and disclosures electronically through the DocuSign system. Please read the information below carefully and thoroughly, and if you can access this information electronically to your satisfaction and agree to this Electronic Record and Signature Disclosure (ERSD), please confirm your agreement by selecting the check-box next to 'I agree to use electronic records and signatures' before clicking 'CONTINUE' within the DocuSign system.

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At any time, you may request from us a paper copy of any record provided or made available electronically to you by us. You will have the ability to download and print documents we send to you through the DocuSign system during and immediately after the signing session and, if you elect to create a DocuSign account, you may access the documents for a limited period of time (usually 30 days) after such documents are first sent to you. After such time, if you wish for us to send you paper copies of any such documents from our office to you, you will be charged a \$0.00 per-page fee. You may request delivery of such paper copies from us by following the procedure described below.

### **Withdrawing your consent**

If you decide to receive notices and disclosures from us electronically, you may at any time change your mind and tell us that thereafter you want to receive required notices and disclosures only in paper format. How you must inform us of your decision to receive future notices and disclosure in paper format and withdraw your consent to receive notices and disclosures electronically is described below.

### **Consequences of changing your mind**

If you elect to receive required notices and disclosures only in paper format, it will slow the speed at which we can complete certain steps in transactions with you and delivering services to you because we will need first to send the required notices or disclosures to you in paper format, and then wait until we receive back from you your acknowledgment of your receipt of such paper notices or disclosures. Further, you will no longer be able to use the DocuSign system to receive required notices and consents electronically from us or to sign electronically documents from us.

### **All notices and disclosures will be sent to you electronically**

Unless you tell us otherwise in accordance with the procedures described herein, we will provide electronically to you through the DocuSign system all required notices, disclosures, authorizations, acknowledgements, and other documents that are required to be provided or made available to you during the course of our relationship with you. To reduce the chance of you

inadvertently not receiving any notice or disclosure, we prefer to provide all of the required notices and disclosures to you by the same method and to the same address that you have given us. Thus, you can receive all the disclosures and notices electronically or in paper format through the paper mail delivery system. If you do not agree with this process, please let us know as described below. Please also see the paragraph immediately above that describes the consequences of your electing not to receive delivery of the notices and disclosures electronically from us.

#### **How to contact EY:**

You may contact the sender of your envelope to let them know of your changes as to how we may contact you electronically, to request paper copies of certain information from us, and to withdraw your prior consent to receive notices and disclosures electronically.

#### **To advise EY of your new email address**

To let us know of a change in your email address where we should send notices and disclosures electronically to you, you must send an email message to the envelope sender and in the body of such request you must state: your previous email address, your new email address. We do not require any other information from you to change your email address.

If you created a DocuSign account, you may update it with your new email address through your account preferences.

#### **To request paper copies from EY**

To request delivery from us of paper copies of the notices and disclosures previously provided by us to you electronically, please contact the envelope sender and in the body of such request you must state your email address, full name, mailing address, and telephone number. We will bill you for any fees at that time, if any.

#### **To withdraw your consent with EY**

To inform us that you no longer wish to receive future notices and disclosures in electronic format you may:

1. decline to sign a document from within your signing session, and on the subsequent page, select the checkbox indicating you wish to withdraw your consent, or you may;
2. send us an email to [docusign@ey.com](mailto:docusign@ey.com) and in the body of such request you must state your email, full name, mailing address, and telephone number. We do not need any other information from you to withdraw consent. The consequences of your withdrawing consent for online documents will be that transactions may take a longer time to process.

#### **Required hardware and software**

The minimum system requirements for using the DocuSign system may change over time. The current system requirements are found here: <https://support.docusign.com/guides/signer-guide-signing-system-requirements>.

### **Acknowledging your access and consent to receive and sign documents electronically**

To confirm to us that you can access this information electronically, which will be similar to other electronic notices and disclosures that we will provide to you, please confirm that you have read this ERSD, and (i) that you are able to print on paper or electronically save this ERSD for your future reference and access; or (ii) that you are able to email this ERSD to an email address where you will be able to print on paper or save it for your future reference and access. Further, if you consent to receiving notices and disclosures exclusively in electronic format as described herein, then select the check-box next to 'I agree to use electronic records and signatures' before clicking 'CONTINUE' within the DocuSign system.

By selecting the check-box next to 'I agree to use electronic records and signatures', you confirm that:

You can access and read this Electronic Record and Signature Disclosure; and

You can print on paper this Electronic Record and Signature Disclosure, or save or send this Electronic Record and Disclosure to a location where you can print it, for future reference and access; and

Until or unless you notify EY as described above, you consent to receive exclusively through electronic means all notices, disclosures, authorizations, acknowledgements, and other documents that are required to be provided or made available to you by EY during the course of your relationship with EY.

### **Privacy Notice – DocuSign**

#### **1. Introduction**

This Privacy Notice is intended to describe the practices EY follows in relation to the DocuSign ("Tool") with respect to the privacy of all individuals whose personal data is processed and stored in the Tool.

#### **2. Who manages the Tool?**

"EY" refers to one or more of the member firms of Ernst & Young Global Limited ("EYG"), each of which is a separate legal entity and can act as a data controller in its own right. The entity that is acting as data controller by providing this Tool on which your personal data will be processed and stored is EY Global Services Limited. EY Global Services Limited licenses the Tool from DocuSign, Inc., 221 Main Street, Suite 1000, San Francisco, CA 94105.

The personal data you provide in the Tool is shared by EY Global Services Limited with one or more member firms of EY (see "Who can access your information" section below).

The Tool is hosted externally by the vendor, DocuSign, in data centers (referred to by DocuSign as data center “rings”) in North America, Canada, Germany, France and Netherlands and Australia. Documents/envelopes will be hosted in the applicable ring where they are initiated from. When an envelope is initiated for signature in a different ring to the intended recipient, a link to the envelope is written in the inbox of the recipient and when they click the link they are taken to a web server in the ring where the envelope has been initiated. Account administrators select either the NA, CA, EU or AU for an account user’s data center ring when an account is initiated depending on the data transfer requirements and restrictions in the account user’s jurisdiction. Japan has selected the EU as its data center ring. If no data centre ring is selected by the account administrator, hosting will default to the North America ring.

### **3. Why do we need your information?**

The Tool is a vendor product which will allow electronic signature of internal and external documents. The Tool provides a global standard for an electronic signature that increases efficiency of e-Signature for the enterprise, improve document signing process for internal and external clients and allow for integrations with other 3rd party tools. The intention is for the tool to be used across all service lines within EY with the aim to ultimately replace physical signatures with electronic signatures.

Your personal data processed in the Tool is used as follows:

- You will log into the Tool by going to the DocuSign website and using Single Sign-On. Once you have logged into the Tool, you can create an envelope which contains the relevant documents. In order to create an envelope, your first name, last name and email address is used. The EY signatory uses DocuSign to sign the document (which involves the processing of their first name, last name and signature) and this is then sent to the counterparty (i.e. future employee, vendor, client etc.) to provide any requested information and signature.

EY relies on the following basis to legitimize the processing of your personal data in the Tool:

- Processing is necessary for the purposes of the legitimate interests pursued by the data controller or by a third party, except where such interests are overridden by the interests or fundamental rights and freedoms of the data subject which require protection of personal data. The specific legitimate interest(s) pursued is to streamline and speed up the signature process to ensure timely executions of documents.

The provision of your personal data to EY is optional. However, if you do not provide all or part of your personal data, we may be unable to carry out the purposes for processing.

Processing of your personal data is necessary for the purposes of the legitimate interests pursued by the data controller or by a third party, except where such interests are overridden by the interests or fundamental rights and freedoms of the data subject which require protection of personal data. The specific legitimate interest is to streamline and speed up the signature process to ensure timely executions of documents.

#### 4. What type of personal data is processed in the Tool?

The Tool processes these personal data categories:

- First and last name;
- Email address; and
- Signature.

This data is sourced from:

- Directly from you;
- Directly from any other EY partner, employee and/or contractor, former EY partner, employee and/or contractor;
- directly from clients and former clients;
- directly from vendors and former vendors; and
- directly from any other third parties who will be a party to the document which is being signed.

#### 5. Sensitive Personal Data

Sensitive personal data reveals your racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, genetic data, biometric data, data concerning health or data concerning sex life or sexual orientation.

EY does not intentionally collect any sensitive personal data from you via the Tool. The Tool's intention is not to process such information.

#### 6. Who can access your information?

Your personal data is accessed in the Tool by the following persons/teams:

- DocuSign Organisation Administrator;
- DocuSign Account Administrator;
- DocuSign Sender;
- DocuSign Viewer; and
- DocuSign support.

Role	Where are they located?	What is the purpose for which they need access?	Level of access rights
DocuSign Organisation Administrator	This is limited to members of the EY DocuSign Centre of Excellence (COE).	Overall admin of EY DocuSign Organization. Control	Full Admin control, with oversight of all accounts within the EY DocuSign Organization.



		Organization-wide settings and access.  Act as Account Admin on all Accounts for setup and escalation purposes.	
DocuSign Account Administrator	Multiple administrators although limited to only those who need and have been authorised to have admin rights.	To admin the account including setting up users in the system to create envelopes, reporting etc.	Admin rights to change account settings, add users but can't access envelopes unless they are given permission by envelope creator.
DocuSign Sender	Globally.	Create envelopes.	Only to their envelopes.
DocuSign support	DocuSign support is located in US and Europe.	All on the understanding that it would only be to perform support services as requested by IT.	All on the understanding that it would only be to perform support services as requested by IT.

The access rights detailed above involves transferring personal data in various jurisdictions (including jurisdictions outside the European Union) in which EY operates (EY office locations are listed at [www.ey.com/ourlocations](http://www.ey.com/ourlocations)). EY will process your personal data in the Tool in accordance with applicable law and professional regulations in your jurisdiction. Transfers of personal data within the EY network are governed by EY's Binding Corporate Rules ([https://www.ey.com/en\\_gl/data-protection-binding-corporate-rules-program](https://www.ey.com/en_gl/data-protection-binding-corporate-rules-program)).

## 7. Data retention

Our policy is to retain personal data only for as long as it is needed for the purposes described in the section "Why do we need your personal data". Retention periods vary in different jurisdictions and are set in accordance with local regulatory and professional retention requirements.

In order to meet our professional and legal requirements, to establish, exercise or defend our legal rights and for archiving and historical purposes, we need to retain information for significant periods of time.

The policies and/or procedures for the retention of personal data in the Tool are in accordance with EY Records Retention Global Policy and applicable EY Global, Area, Region or Country Retention Schedule. For more information on the retention period applicable to your personal data, please contact your usual EY representative. However, the account managers for each envelope can set their own retention periods, which can be anything between one day and seven

years. If the account managers do not set a customized retention period for their envelopes, then the EY Records Retention Global Policy retention period shall apply.

Your personal data will be retained in compliance with privacy laws and regulations.

After the end of the data retention period, your personal data will be deleted.

## **8. Security**

EY protects the confidentiality and security of information it obtains in the course of its business. Access to such information is limited, and policies and procedures are in place that are designed to safeguard the information from loss, misuse and improper disclosure. Additional information regarding our approach to data protection and information security is available in our [Protecting your data](#) brochure.

## **9. Controlling your personal data**

EY will not transfer your personal data to third parties (other than any external parties referred to in section 6 above) unless we have your permission or are required by law to do so.

You are legally entitled to request details of EY's personal data about you.

To confirm whether your personal data is processed in the Tool or to access your personal data in the Tool or (where applicable) to withdraw your consent, contact your usual EY representative or email your request to [global.data.protection@ey.com](mailto:global.data.protection@ey.com).

## **10. Rectification, erasure, restriction of processing or data portability**

You can confirm your personal data is accurate and current. You can request rectification, erasure, restriction of processing or a readily portable copy of your personal data by contacting your usual EY representative or by sending an e-mail to [global.data.protection@ey.com](mailto:global.data.protection@ey.com).

## **11. Complaints**

If you are concerned about an alleged breach of privacy law or any other regulation, contact EY's Global Privacy Leader, Office of the General Counsel, 6 More London Place, London, SE1 2DA, United Kingdom or via email at [global.data.protection@ey.com](mailto:global.data.protection@ey.com) or via your usual EY representative. An EY Privacy Leader will investigate your complaint and provide information about how it will be handled and resolved.

If you are not satisfied with how EY resolved your complaint, you have the right to complain to your country's data protection authority. You can also refer the matter to a court of competent jurisdiction.

Certain EY member firms in countries outside the European Union (EU) have appointed a representative in the EU to act on their behalf if, and when, they undertake data processing

activities to which the EU General Data Protection Regulation (GDPR) applies. Further information and the contact details of these representatives are available [here](#).

## **12. Contact us**

If you have additional questions or concerns, contact your usual EY representative or email [global.data.protection@ey.com](mailto:global.data.protection@ey.com).